DISCLOSURES UNDER THE NEW CAPITAL ADEQUACY FRAMEWORK (BASEL II GUIDELINES) FOR THE YEAR ENDED 31 MARCH 2011

I. SCOPE OF APPLICATION

The Royal Bank of Scotland N.V. is operating in India as a branch of The Royal Bank of Scotland N.V., Netherlands.

II. CAPITAL STRUCTURE

The bank has not borrowed any Subordinate Debt/Innovative Perpetual Debt Instrument/Hybrid capital during the year ended 31 March 2011.

Capital Funds

(Rs. in crores)

		31 March 2011	31 March 2010
A	**Tier I Capital**	**2,265.57**	**2,032.33**
	Of which		
	- Paid-up Share Capital	169.02	169.02
	- Reserves and surplus	2,293.31	2,101.84
	- Innovative Perpetual Debt Instrument (IPDI)	304.85	310.18
	- Amount deducted from Tier 1 capital		
	- Deferred Tax Assets	(458.78)	(522.54)
	- Intangible assets	(4.04)	(5.52)
	- Others	(38.79)	(20.65)
B	**Tier II Capital (net of deductions) (B.1+B.2+B.3-B.4)**	**904.16**	**1,168.06**
	Of which		
B.1	Debt Capital Instruments eligible for inclusion as Upper Tier II Capital (Hybrid Capital)		
	- Total amount outstanding	715.70	715.70
	- Of which amount raised during the current year	Nil	Nil
	- Amount eligible as capital funds	508.08	557.61
B.2	Subordinated debt eligible for inclusion in Tier II capital		
	- Total amount outstanding	1,087.19	1,661.44
	- Of which amount raised during the current year	Nil	Nil
	- Amount eligible as capital funds	209.69	426.86

B.3	Other Tier II Capital - Provision for Standard Assets and Investment Reserves.	186.39	183.59
B.4	Deductions from Tier 2 Capital	-	-
C	**Total Eligible Capital**	**3,169.73**	**3,200.39**

III. CAPITAL ADEQUACY

An assessment of the capital requirement of the Bank is carried out through a comprehensive projection of future businesses that takes cognizance of the strategic intent of the Bank, profitability of particular businesses and opportunities for growth. The proper mapping of credit, operational and market risks to this projected business growth enables assignment of capital that not only adequately covers the minimum regulatory capital requirement but also provides headroom for growth. The calibration of risk to business is enabled by a strong risk culture in the Bank aided by effective, technology based risk management systems.

A summary of the Bank's capital requirement for credit, market and operational risk and the capital adequacy ratio as on 31 March 2011 is presented below.

(Rs. in crores)

		31 March 2011	**31 March 2010**
A	Capital requirements for Credit Risk	1,819.78	1,637.83
	- Portfolios subject to standardized approach	1,819.78	1,637.83
	- Securitisation exposures	-	-
B	Capital requirements for Market Risk	274.51	316.68
	- Standardized duration approach		
	- Interest rate risk	238.51	280.68
	- Foreign exchange risk	36.00	36.00
	- Equity risk	-	-
C	Capital requirements for Operational risk		
	- Basic indicator approach	354.07	350.56
D	Capital Adequacy Ratio of the Bank (%)	11.65%	12.50%
E	Tier 1 CRAR (%)	8.33%	7.94%

RISK MANAGEMENT:

The Bank undertakes a wide variety of businesses and hence is required to be able to identify, measure, control, monitor and manage as well as report risks in a clear manner. The important aspects of the Bank's risk management are a robust risk approval mechanism, well defined processes and guidelines and an elaborate internal control mechanism. The risk approval mechanism covers all the key areas of risk such as credit, market and operational risk and is involved in quantification of these risks wherever possible for effective and continuous monitoring.

Objectives and Policies

The Bank's risk management processes are guided by well-defined global as well as local policies appropriate for various risk categories. There is an independent risk team that oversees this function and oversight is by the regional as well as the global risk offices and also by periodic independent risk reviews / internal auditor reviews.

The risk appetite for the Bank in India is determined by the global risk committees based on inputs from the country management.

Besides the risk management and compliance departments of the Bank in India, there are several committees such as Asset-Liability Committee (ALCO), Risk and Control Committee (RCC), etc. that are involved in managing the concerned risks within the bank’s guidelines as well as regulatory requirements.

The Bank has global policies for Stress Testing to measure impact of adverse stress scenarios on the adequacy of capital.

Structure and Organization

The Risk Management function reports to the Country Executive in India and has functional reporting to the Regional Head of Risk who is based in Singapore. Risk has three distinct teams - Credit Risk, Market Risk and Operational Risk and each of these teams are headed by experienced risk professionals. For credit risk, there is a Risk Management Committee which meets regularly to consider credit proposals for approval.

IV. CREDIT RISK

Credit Risk Management Policy

Credit risk considers the ability of a borrower or counter-party to honor commitments under an agreement as any such failure has an adverse impact on the banks’ financial performance. The Bank is exposed to credit risk through its various lending activities such as funded facilities, non-funded facilities as well as hedging facilities.

The Bank’s credit risk management process is independent of the business so as to protect integrity of the risk assessment process and decision making. The global as well as local policies guide the credit risk team to make informed decisions.

Credit risk in respect of exposures on corporate as well as micro, small and medium enterprises (MSME) is measured and managed at both individual counterparty level as well as at a portfolio level. Some of the products extended by the bank are managed at the portfolio level, as the individual loans under product programs are guided by the product program norms with built in triggers. Credit rating tools are an integral part of risk-assessment of the corporate borrowers and different rating models are used for each segment that has distinct risk characteristics such as Large Corporate, Small and Medium Corporate, financial companies, project finance etc.

The credit rating tools use a combination of quantitative inputs and qualitative inputs to arrive at a 'point-in-time' view of the rating of counterparty. Each internal rating grade corresponds to a distinct probability of default. Model validation is carried out periodically at a global level by objectively assessing the accuracy and stability of ratings.

All credit exposures, once approved, are monitored and reviewed periodically against the approved limits. Besides this there are monthly risk migration analysis and monthly watch list meetings.

The Bank's retail asset portfolio is managed to ensure stable risk adjusted earnings stream by maintaining customer defaults within acceptable levels. The Bank periodically carries out a comprehensive portfolio level analysis of retail asset portfolio with a risk-return perspective. Risk measurement for the retail exposures is done on basis of comprehensive credit assessment parameters.

Risk Review involves independent review of credit risk assessment, compliance with internal policies of the Bank and with the regulatory framework, compliance of sanction terms and conditions and effectiveness of loan administration.

Customers with emerging credit problems are identified early and classified accordingly. Remedial action is initiated promptly to minimize the potential loss to the Bank.

The Bank controls and limits concentration risk by means of appropriate structural limits and borrower limits based on creditworthiness. The exposures to individual clients or group are based on the internal rating of the borrower as well as group-wise borrowing limits and capped by the regulatory ceiling.

Industry analysis plays an important part in assessing the concentration risk within the loan portfolio. Particular attention is given to industry sectors where the Bank believes there is a high degree of risk or potential for volatility in the future. The Bank has fixed internal limits for aggregate commitments to different sectors so that the exposures are evenly spread over various sectors.

Definition of Non-Performing Assets

Advances are classified into performing and non-performing advances (NPAs) as per RBI guidelines. NPAs are further classified into sub-standard, doubtful and loss assets based on the criteria stipulated by RBI. An asset, including a leased asset, becomes non-performing when it ceases to generate income for the Bank.

An NPA is a loan or an advance where:

Interest and/or installment of principal remains overdue for a period of more than 90 days in respect of a term loan;

The account remains "out-of-order" in respect of an Overdraft or Cash Credit (OD/CC);

The bill remains overdue for a period of more than 90 days in case of bills purchased and discounted;

A loan granted for short duration crops will be treated as an NPA if the installments of principal or interest thereon remain overdue for two crop seasons; and

A loan granted for long duration crops will be treated as an NPA if the installments of principal or interest thereon remain overdue for one crop season.

The Bank classifies an account as an NPA only if the interest imposed during any quarter is not fully repaid within 90 days from the end of the relevant quarter.

CREDIT RISK EXPOSURES

Total Gross Credit Risk Exposure Including Geographic Distribution of Exposure

(Rs. in crores)

	31 March 2011			31 March 2010		
	Domestic	**Overseas**	**Total**	**Domestic**	**Overseas**	**Total**
Fund Based	10,593.56	Nil	10,593.56	12,143.14	Nil	12,143.14
Non Fund Based	9,626.20	Nil	9,626.20	6,055.02	Nil	6,055.02
Total	**20,219.76**	**Nil**	**20,219.76**	**18,198.16**	**Nil**	**18,198.16**

Distribution of advances by industry sector

(Rs. in crores)

S.No.	Industry Classification	31 March 2011		31 March 2010	
		Funded	**Non funded**	**Funded**	**Non funded**
1	Mining	6.23	180.04	17.49	0.12
2	Iron and Steel	35.41	64.53	331.22	6.88
3	Other Metal and Metal Products	111.00	182.11	101.74	127.4
4	All Engineering	1,028.19	1,473.74	256.73	740.22
5	Electricity	121.65	212.25	65.11	122.19
6	Cotton Textiles	173.43	65.33	128.18	128.44
7	Food Processing	477.68	520.08	409.66	215.23
8	Paper and Paper Products	1.13	97.70	15.24	55.35
9	Rubber and Rubber Products	129.32	22.34	116.13	10.5
10	Chemicals, Dyes, Paints etc	584.08	1,183.06	1,045.05	318.6
11	Leather and Leather Products	23.46	5.15	23.69	3.35
12	Gems and Jewellery	3,211.36	79.05	2,475.60	344.4
13	Construction	163.56	485.16	175.24	310.71
14	Petroleum	3.10	362.53	276.51	547.65
15	Automobiles including trucks	513.84	0.06	634.38	628.01
16	Computer Software	127.91	368.94	507.32	1,057.20
17	Infrastructure	681.39	-	1,206.04	1,327.13
18	Banking	429.26	35,147.68	-	25,075.77
19	Other Industries	1,143.91	5,267.04	1,709.76	4,002.78
20	Residual exposures	1,584.96	-	3,910.96	45.72
	Total	**10,550.85**	**45,716.78**	**13,406.05**	**35,067.65**

Residual Contractual Maturity breakdown of Assets

(Rs. in crores)

Particulars	31 March 2011		31 March 2010	
	Advances	Investments	Advances	Investments
Upto 1 day	260.93	0.00	1,638.73	-
2 to 7 days	775.25	89.86	599.77	-
8 to 14 days	956.42	139.83	363.03	-
15 to 28 days	700.36	365.47	582.60	449.11
29 days to 3 months	2,098.22	1,923.58	2,241.87	1,137.00
Over 3 months & up to 6 months	758.93	1,509.00	1,173.93	1,061.14
Over 6 months & up to 1 year	460.83	1,556.97	798.01	479.80
Over 1 year & up to 3 years	3,995.62	1,119.64	5,360.59	1,395.00
Over 3 year & up to 5 years	137.88	1,096.85	101.34	1,438.10
Over 5 years	406.40	1,100.40	546.18	1,305.26
Total	**10,550.85**	**8,901.61**	**13,406.05**	**7,265.41**

Movement of NPAs and Provision for NPAs

(Rs. in crores)

	Particulars	31 March 2011	31 March 2010
A	Amount of NPAs (Gross)	614.48	685.37
B	Net NPAs	173.70	260.91
C	NPA Ratios		
	- Gross NPAs to gross advances (%)	6.24%	4.96%
	- Net NPAs to net advances (%)	1.65%	1.95%
D	Movement of NPAs (Gross)		
	- Opening balance	685.37	818.91
	- Additions during the year	548.23	1,151.26
	- Reductions during the year	619.12	-1,284.80
	- Closing balance	614.48	685.37
E	Movement of Provision for NPAs		
	- Opening balance	424.46	452.50
	- Provision made during the year	197.50	182.61
	- Write – offs / Write – back of excess provision	181.19	-210.66
	- Closing balance	440.77	424.45

Non-Performing Investments (NPIs) and Provision for depreciation on NPIs - NIL

V. Credit Risk: Use of Rating Agency under the Standardized Approach

The bank uses short-term and long-term instrument/bank facilities' ratings from CARE, CRISIL, ICRA and Fitch to assign Risk weights in terms of RBI guidelines. In respect of claims on non-resident corporates and foreign banks, ratings assigned by international rating agencies i.e. Standard & Poor's, Moody's and Fitch are used. The bank uses credit ratings that are publicly available for assigning risk weights.

The Bank assigns Long term credit ratings accorded by the chosen credit rating agencies for assets which have a contractual maturity of more than one year. However, in accordance with the guidelines of RBI the bank classifies all cash credit exposures as long term exposures and accordingly the long term ratings accorded by the chosen credit rating agencies are assigned.

The bank uses issuer and issue ratings for both fund as well as non fund based exposures.

In case the Bank does not have exposure in a rated issue, the Bank would use the issue rating for its comparable unrated exposures to the same borrower, provided that the Bank's exposures are pari-passu or senior and of similar or lesser maturity as compared to the rated issue. If either the issuer or single issue has been assigned a rating which maps into a risk weight equal to or higher than that which applies to unrated claims, a claim on the same counterparty, which is unrated by any chosen credit rating agency, will be assigned the same risk weight as is applicable to the rated exposure, if this claim ranks pari passu or junior to the rated exposure in all respects.

Details of Gross Credit Risk Exposure (Fund based and Non-fund based) based on Risk- Weight

(Rs. in crores)

	31 March 2011	31 March 2010
Below 100% risk weight	6,764.62	4,233.77
100% risk weight	12,534.75	11,718.14
More than 100% risk weight	920.39	2,246.25
Deductions		
- Investments in subsidiaries	Nil	Nil

VI. CREDIT RISK MITIGATION

The Bank uses various collaterals both financial as well as non-financial, guarantees and credit insurance as credit risk mitigants. The main financial collaterals include bank deposits, NSC/KVP/LIP, while main non-financial collaterals include land and building, plant and machinery, residential and commercial mortgages. The guarantees include guarantees given by corporate, bank and personal guarantees. This also includes loan and advances guaranteed by Export Credit & Guarantee Corporation Limited (ECGC).

The Bank reduces its credit exposure to counterparty with the value of eligible financial collateral to take account of the risk mitigating effect of the collateral. To account for the volatility in the value of collateral, haircut is applied based on the type, issuer, maturity, rating and re-margining/revaluation frequency of the collateral.

Detail of total credit exposure position as on 31 March 2011

(Rs. in crores)

	31 March 2011	31 March 2010
Covered by		
- financial collaterals	791.53	630.96
- Guarantees	1,803.85	1,337.00

VII. SECURITISATION

No financial assets were sold to Securitisation / Reconstruction Company for Asset Reconstruction either during the current year or the previous year.

VIII. MARKET RISK IN TRADING BOOK

Market risk is the risk to the Bank's earnings and capital due to changes in the market level of interest rates or prices of securities and foreign exchange, as well as the volatilities of those changes. The Bank is exposed to market risk through its trading activities, which are carried out both for customers and on a proprietary basis. The Bank adopts a comprehensive approach to market risk management for its trading, investment and asset/liability portfolios. The Bank uses various risk metrics, both statistical and non-statistical, including:

- Non-statistical measures like position, gaps and sensitivities (duration, PVBP, option greeks)
- Value at risk (VaR)

The Bank has set in place Value at Risk (VaR) limits, which are based on the Historical Simulation Method to control and monitor market risk. The Bank has also in place PV01 limits (impact of 1 basis point shift in the yield curve) and basis limits to control the exposures. Daily reports are made available through the risk management systems for monitoring these exposures. In addition to these limits, stress and scenario analysis are undertaken to evaluate shock impacts.

Capital Requirement for Market Risk

(Rs. in crores)

	Amount of Capital required	
	31 March 2011	31 March 2010
- Interest rate risk	238.51	280.68
- Foreign exchange risk (including gold)	36.00	36.00
- Equity position risk	-	-

IX. OPERATIONAL RISK

Operational Risk is the risk of loss resulting from inadequate or failed internal processes, people and systems or from external events, including legal risk. Operational risk is an integral and unavoidable part of the RBS Group's business as it is inherent in the processes it operates to provide services to customers and generate profit for shareholders.

To ensure appropriate responsibility is allocated for the management, reporting and escalation of operational risk, the Group operates three lines of defense model which outlines principles for the roles, responsibilities and accountabilities for operational risk management.

Operational risk – three lines of defense model

1st line of defense
The Business: The Business is responsible for setting risk appetite, owns and manages its risks within the overall Group risk appetite, and is responsible for complying with all Group policies. The business must test and certify the adequacy and effectiveness of its controls in place to meet these responsibilities.

2nd line of defense
Risk Management: It is responsible for owning and developing the risk management framework and tools, which the business uses to discharge its responsibilities. The 2nd line of defence must provide oversight and challenge to the 1st line on management of its risks.

3rd line of defense
Group Internal Audit: Responsible for providing independent assurance on the design, adequacy and effectiveness of the Group's system of internal controls.

The Operational Risk Policy Standards provide the direction for delivering effective operational risk management. They comprise principles and processes that enable the consistent identification, assessment, management, monitoring and reporting of operational risk across the Group. The objectives of the standards are to protect the Group from financial loss or damage to its reputation, its customers or staff and to ensure that it meets all necessary regulatory and legal requirements.

The standards are supported by several key operational risk management techniques of which RBS NV India Branch ("RBSNVI")) applies the following techniques:

- Risk assessments: business units identify and assess operational risks to ensure that they are effectively managed, prioritized, documented and aligned to risk appetite;

- Risk Event and Loss data management: each business unit's internal loss data management process captures all operational risk loss events above certain minimum thresholds. The data is used to enhance the adequacy and effectiveness of controls, identify emerging themes, enable formal loss event reporting and inform risk and control assessments and scenario analysis.
Escalation of individual events to senior management is determined by the seriousness of the event. Operational loss events are categorized under the following headings:

- Clients, products and business practices;
- Technology and infrastructure failures;
- Employment practices and workplace safety;
- Internal fraud;
- External fraud;
- Execution, delivery and process management;
- Malicious damage; and
- Disaster and public safety

- Risk Issues Management: This process is meant to ensure that operational risk issues are captured and classified consistently, and that there is robust governance over their closure and acceptance.

- New products approval process: this process ensures that all new products or significant variations to existing products are subject to a comprehensive risk assessment. Products are evaluated and approved by specialist areas and are subject to executive approval prior to launch; and

- Control Environment Certification: This requires to provide a bi-annual assessment and certification regarding, adequacy and effectiveness of the internal risk and control framework for which they are responsible; management of material risk within the business, within defined risk appetite and tolerance levels; and compliance with the Group Policy Framework and supporting policy standards .

Scope and nature of reporting and measurement systems

Reporting forms an integral part of operational risk management. The Group's risk management processes are designed to ensure that issues are identified, escalated and managed on a timely basis. Exposures for each division are reported through monthly risk issue reports, which provide detail on the risk issues and action plans.

Events that have a material, actual or potential impact on the branch's finances, reputation or customers, are escalated and reported to divisional and Group executive.

Policies for mitigating

The objective of operational risk management is not to remove operational risk altogether, but to manage the risk to an acceptable level, taking into account the cost of minimizing the risk with the resultant reduction in exposure. Strategies to manage operational risk include avoidance, transfer, acceptance and mitigation by controls.

Each business unit must manage its operational risk exposure within an acceptable level, testing the adequacy and effectiveness of controls and other risk mitigants regularly and documenting the results. Where unacceptable control weaknesses are identified, action plans must be produced and tracked to completion.

RBSNVI is using the Standardized Approach for operational risk as measured according to Basel II.

Approach for Operational Risk Capital Assessment

As per the RBI guidelines, the Bank has followed the Basic Indicator Approach for the year ending 31 March 2011.

X. INTEREST RATE RISK IN THE BANKING BOOK

Interest Rate Risk in the Banking Book (IRRBB) refers to the potential adverse financial impact on the Bank's net interest income from changes in interest rates. Due to the fundamental nature of its business the Bank carries various interest sensitive assets and liabilities in its Balance sheet. This exposes the Bank to risk on account of change in interest rates.

The Bank's Asset Liability Management Committee (ALCO) is responsible for evolving appropriate systems and procedures for identification and analysis of various balance sheet risks including IRRBB and laying down parameters for efficient management of these risks. The ALCO focuses on setting interest rate risk appetite through imposing limits on relevant indicators, which positively contributes to optimising the balance sheet structure and Net Interest Income (NII) over time, while limiting the susceptibility to interest changes. ALCO periodically monitors risk positions of the Bank, ensures compliance with regulatory requirements and internal limits and provides strategic guidance for management of the IRRBB.

Presently the Bank uses the following tools for managing interest rate risk:

- Gap analysis: The interest rate gap or mismatch risk is measured by calculating gaps over different time intervals as at a given date. This static analysis measures mismatches between rate sensitive liabilities (RSL) and rate sensitive assets (RSA). The report is prepared monthly by grouping rate sensitive liabilities, assets and off-balance sheet positions into time buckets according to residual maturity or next re-pricing period, whichever is earlier. The difference between RSA and RSL for each time bucket signifies the gap in that time bucket. The direction of the gap indicates whether net interest income is positively or negatively impacted by a change in interest rates and the magnitude of the gap helps in finding out the change in net interest income for any given interest rate shift. The Bank has internal limits for the local currency interest rate risk gap statements.
- Earnings at risk (EaR): The interest rate gap reports mentioned above indicate whether the Bank is in a position to benefit from rising interest rates by having a positive gap (RSA > RSL) or whether it is in a position to benefit from declining interest rates by having a negative gap (RSL > RSA). EaR measures the change in NII over a one year time horizon for various levels of parallel shift in interest rates.
- Economic value: Change in the interest rates have a long-term impact on the capital position of the Bank, as the economic value of the Bank's assets, liabilities and off-balance sheet positions get affected by these rate changes. The Bank applies modified duration approach and monitors impact of various levels of parallel shift in interest rate curves on the capital position. This report is periodically presented before ALCO.
- PV01: PV01 measures the impact on economic value of a 1 basis point (0.01%) change in interest rates. The Bank monitors and manages the interest rate risk on its banking book through PV01 limits.

Details of increase (decline) in earnings and economic value for upward and downward rate shocks, assuming parallel shift in the interest rate curves , based on the local currency positions as on 31 March 2011 are given below:

(Rs. in crores)

Impact from	**31 March 2011**		**31 March 2010**	
	Change in Interest Rate in bps (200)	Change in Interest Rate in bps 200	Change in Interest Rate in bps (200)	Change in Interest Rate in bps 200
Earning Perspective	(25)	25	(33)	33
Economic value perspective	38	(38)	(49)	49