CREDIT SUISSE

Credit Suisse AG, Mumbai branch

Basel II – Pillar 3 disclosures

Background

The disclosures and analysis provided herein below are in respect of the Mumbai branch ('the Bank') of Credit Suisse AG which is incorporated in Switzerland with limited liability. Also, the disclosures herein below are solely in the context of local regulatory requirements and guidelines prescribed by the Reserve Bank of India (RBI) under Pillar 3-Market Discipline of the New Capital Adequacy Framework (commonly referred to as Basel II). The Pillar 3 disclosures are designed to complement the minimum capital requirements in Pillar 1 and the Supervisory Review and Evaluation Process in Pillar 2. The aim of Pillar 3 is to promote market discipline by allowing market participants access to information of risk exposures and risk management policies and process adopted by the bank.

1. Scope of application

The New Capital Adequacy Framework ("Basel II") as prescribed by Reserve Bank of India is applied to the operations of Credit Suisse AG (a bank incorporated in Switzerland) in India, i.e. to Credit Suisse AG, Mumbai Branch ("the Bank"); being its sole branch in India.

Presently, the Accounting Standard (AS) 21 on Consolidation Accounting is not applicable to the India operations of Credit Suisse AG since none of its Indian subsidiaries are owned by the Branch in Mumbai.

The Branch does not have any interest in insurance entities.

2. Capital Structure

The capital structure of the Bank mainly comprises of interest free funds provided by its Head Office in the form of Tier I capital. The structure of eligible capital is as under

(Rs in '000)

Composition of capital	**September 30, 2011**
Tier I capital	
Head office capital	11,350,000
Deductions:	
Debit balance in Profit & Loss account	79,783
Tier I capital (Net)	**11,270,217**
Tier II capital	-
Total eligible capital	**11,270,217**

3. Capital adequacy

The Bank needs to maintain sufficient capital to support business activities, in accordance with the regulator requirements. Currently the main source of the Bank's supply side of its capital is capital infusion by its Head Office. The Bank has adopted the Internal Capital Adequacy Assessment Process (ICAAP) approach to assess capital adequacy for its business activities. The ICAAP process follows the approach as prescribed under RBI guidelines.

In view of the Basel II framework, the RBI has prescribed a parallel run under which the Bank calculates capital adequacy under both Basel I and Basel II. Further at September 30, 2011, the Bank is required to maintain a capital adequacy based on the higher of the minimum capital required under Basel II or at 80% of the minimum capital requirement as compared to Basel I. The computation under Basel II guidelines results in a higher minimum capital requirement as compared to Basel I and hence as a result the capital adequacy as at September 30, 2011 has been maintained and reported by the Bank as per Basel II guidelines.

The capital that the Bank is required to hold by the RBI is determined by its balance sheet, off-balance sheet and risk positions.

A summary of the Bank's capital requirement for credit, market and operational risk and the capital adequacy ratio as on September 30, 2011 is presented below

(Rs in '000)

Risk area	**September 30, 2011**
Credit risk	
Capital required	
- for portfolio subject to standardised approach	41,179
- for securitisation exposures	-
Market risk	
Capital required	
- for interest rate risk	85,264
- for foreign exchange risk (including gold)	202,500
- Equity risk	-
Operational risk	
Capital required	
- Basic indicator approach	10,657
Total capital requirement at 9%	339,600
Total capital funds of the Bank	11,270,217
Total risk weighted assets	3,773,331
Tier I capital adequacy ratio	298.68%
Capital adequacy ratio	298.68%

4. Risk management framework

The Bank is supervised by the Branch Manager ("BM") and the Local Management Committee ("LMC") comprising of key senior management in the Bank and permanent invitees from various functions with Credit Suisse. The LMC is supported by other committees for specific areas like the Asset Liability Management committee ("ALCO"), Credit committee, Investment committee, Audit committee, Compliance committee, etc. The Branch management is supported by the Regional & Country Management of Credit Suisse on all governance and franchise issues.

There are processes and policies in place to support activities planned in the Bank. Apart from local policies, the Bank also adheres to Global Credit Suisse policies and best practices.

Credit risk management

Within Credit Suisse, the Credit Risk Management ('CRM team') is responsible for managing Credit Suisse's portfolio of credit risk and establishes broad policies and guidelines governing Credit Suisse's credit risk appetite. CRM team is headed globally by the Chief Credit Officer ('CCO') who reports directly to the Chief Risk Officer ('CRO') of Credit Suisse. Credit authority is delegated by the CCO to specific senior CRM team personnel based on each person's knowledge, experience and capability. These delegations of credit authority are reviewed periodically. Credit authorisation is separated from line functions. At Headquarters in Zurich, the Capital Allocation and Risk Management Committee ('CARMC'), in addition to its responsibilities for market risk described below, is also responsible for maintaining credit policies and processes, evaluating country, counterparty and transaction risk issues, applying senior level oversight for the credit review process and ensuring global consistency and quality of the credit portfolio. CARMC regularly reviews credit limits measuring country, geographic region and product concentrations, as well as impaired assets and recommended loan loss provisions.

Globally, Credit Suisse utilises an internal counterparty rating scale assess the probability of default, which approximates that used by the major public rating agencies (ranging from AAA as the best to D as the worst) and applies this grading measure against all of it's counterparties. Credit Suisse takes a proactive approach to rating each of its counterparties and obligors and, as a result, internal ratings may deviate from those assigned by public rating agencies. All counterparties are assigned a credit rating as noted above. The intensity and depth of analysis is related to the amount, duration and level of risk being proposed together with the perceived credit quality of the counterparty/issuer/obligor in question. Analysis consists of a quantitative and qualitative portion and strives to be forward looking, concentrating on economic trends and financial fundamentals. In addition, analysts make use of peer analysis, industry comparisons and other quantitative tools, including a quantitative model based rating system. All final ratings also require the consideration of qualitative factors relating to the company, its industry and management. In addition to the aforementioned analysis, all counterparty ratings are subject to the rating of the country in which they are domiciled. Analysis of key sovereign an economic issues for all jurisdictions is undertaken and these are considered when assigning the rating and risk appetite for individual counterparties.

Each credit facility is approved by senior CRM team personnel who are experienced in making lending decisions. Each facility is covered by a legal agreement that is appropriate for the type of transaction. On a case-by-case basis, Credit Suisse mitigates its credit risk associated with lending and credit related activities. This may be accomplished by taking collateral or a security interest in assets and other means.

Country risk is the risk of a substantial, systemic loss of value in the financial assets of a country or group of countries, which may be caused by dislocations in the credit, equity, and/or currency markets. Credit Suisse's major operating divisions all assume country risk in a variety of ways. The setting of limits for this risk is the responsibility of CARMC based on recommendations of CRM team, Strategic Risk Management ('SRM') and Credit Suisse's economists. Country limits for emerging markets are approved by the Chairman's Committee of the Board of Directors of Credit Suisse Group, a portion of which is delegated to CARMC. For trading positions, country risk is a function of the mark-to-market exposure of the position, while for loans and related facilities country risk is a function of the amount that Credit Suisse has lent or committed to lend. The day-to-day management of country exposure is assigned to each of the core businesses in accordance with its business authorisations and limit allocations. Risk Analytics and Reporting ('RAR') and CRM team provide independent oversight to ensure that the core businesses operate within their limits. CRM team has the responsibility for periodically adjusting these limits to reflect changing credit fundamentals and business volumes.

The Bank will leverage the CRM team expertise and processes within Credit Suisse to manage credit exposures arising from business transactions. The Businesses would be responsible for managing transactions within specified counterparty credit limits like Single Borrower and Group Borrower limits as prescribed by RBI, in consultation with CRM team.

Market risk management

The Bank will use Value at Risk (VaR) and Interest Rate Sensitivity (Dv01) as some of the key measures of monitoring Market Risk arising from transactions. The total Market risk exposure for the Bank is insignificant presently. SRM will review the Bank business requirements and approve suitable limits in consultation with the Business.

Stress test limits would also be determined as the Bank operations increase through discussions in the ALCO. Stress testing results would be reported to the ALCO on quarterly basis.

The Bank Market Risk exposure is an aggregate of Banking book and Trading book exposures. Treasury desk is responsible for Banking book exposures within the Bank, unless another desk is specifically authorised to run such exposures. Trading desk (FX/Derivatives/Bonds etc.) would run positions within their mandated exposure limits.

Globally, Credit Suisse ensures that market risk is comprehensively captured, accurately modeled, reported and effectively managed. Trading and non-trading portfolios are managed at various organisational levels, from the overall risk positions at the Group level down to specific portfolios. Credit Suisse uses market risk measurement and management methods designed to meet or exceed industry standards. These include both general tools capable of calculating comparable exposures across our many activities as well as focused tools that can specifically model unique characteristics of certain instruments or portfolios. The tools are used for internal market risk management, internal market risk reporting and external disclosure purposes. The principal measurement methodologies are VaR and scenario analysis. Additionally, the market risk exposures are also reflected in our economic capital calculations. The risk management techniques and policies are regularly reviewed to ensure that they remain appropriate.

Operational risk management

The definition of Operational Risk used by Credit Suisse Group ("the Group") is "the risk of loss resulting from inadequate or failed internal processes, people and systems or from external events." Business and strategic risks are specifically excluded from this definition. Legal Risk is included within this definition.

Operational risk is controlled through a network of controls, procedures, reports and responsibilities. Within the Group, each individual business area and management level takes responsibility for its own operational risks and provides adequate resources and procedures for the management of those risks.

In addition, the Group has established central Operational Risk team ("BORO") within the CRO division that focus on the coordination of a consistent policy, tools and practices throughout the organisation for the management, measurement, monitoring and reporting of relevant operational risks. This team is also responsible for the overall operational risk measurement methodology and capital calculations.

In addition to the quarterly firm-level CARMC meetings on operational risk, regular operational risk committees meet at the segment level, with representation from senior staff in all the relevant functions. The Group utilises a number of firm-wide operational risk management tools, including risk and control self-assessments; the collection, reporting and analysis of internal and external loss data; and key risk indicator reporting.

The Group has employed the same methodology to calculate the economic risk capital/ advanced measurement approach for operational risk since 2000. This methodology is based upon the identification of a number of key risk scenarios that describe all of the major operational risks that the Group currently faces. Groups of senior staff review each scenario and discuss how likely it is to occur and the likely severity of loss if it was to happen: internal and external loss data, along with certain business environment and

internal control factors (e.g. Control Self-Assessment results, Key Risk Indicators) are used as significant inputs into these discussions. Based on the output from these meetings, the Group enters the scenario probabilities and severities into an event model that generates a loss distribution. Insurance mitigation is included in the capital assessment where appropriate, by considering the level of insurance coverage for each scenario, incorporating haircuts as appropriate. Based on the loss distribution, the level of capital required to cover operational risk can then be calculated.
The operational risk Economic Risk Capital / Advanced Measurement Approach ('ERC/AMA') capital for the group is calculated centrally on a global basis by the Bank Operational Risk Oversight (BORO) team, based in London. Due to the nature of operational risk, it is only appropriate to calculate the ERC/AMA capital at the Credit Suisse Group level. Allocations to legal entities within the group are based on the ratio between those entities' gross revenue and that of the group. This is consistent with the capital methodologies recommended by the Basel Committee.

The Bank will leverage the knowledge and expertise with the Group for management of operational risk. For purposes of this assessment only, Bank has not adopted any specific operational risk capital assessment approach other than the Basic Indicator Approach prescribed by RBI for Operational Risk capital adequacy purposes.

5. Credit risk

<u>Definitions of past due and impaired</u>

The Bank classifies its advances into performing and non-performing loans for accounting purposes in accordance with the extant RBI guidelines given below

A non-performing asset (NPA) is defined as a loan or an advance where:

i) interest and/or installment of principal remain overdue for more than 90 days in respect of a term loan. Any amount due to the bank under any credit facility is 'overdue' if it is not paid on the due date fixed by the Bank;

ii) if the interest due and charged during a quarter is not serviced fully within 90 days from the end of the quarter;

iii) the account remains 'out of order' in respect of an overdraft/cash credit facility continuously for 90 days. An account is treated as 'out of order' if:
   a) the outstanding balance remains continuously in excess of the sanctioned limit/drawing power; or
   b) where the outstanding balance in the principal operating account is less than the sanctioned limit/drawing power, but there are no credits continuously for 90 days as on the date of the balance sheet; or
   c) credits in the account are not enough to cover the interest debited during the accounting period; or

d) drawings have been permitted in the account for a continuous period of 90 days based on drawing power computed on the basis of stock statements that are more than three months old even though the unit may be working or the borrower's financial position is satisfactory; or
e) the regular/*ad hoc* credit limits have not been reviewed/renewed within 180 days from the due date/date of *ad hoc* sanction.

iv) a bill purchased/discounted by the Bank remains overdue for a period of more than 90 days;

v) interest and/or installment of principal in respect of an agricultural loan remains overdue for two crop seasons for short duration crops and one crop season for long duration crops;

vi) In respect of a securitisation transaction undertaken in terms of the RBI guidelines on securitisation, the amount of liquidity facility remains outstanding for more than 90 days;

vii) In respect of derivative transactions, if the overdue receivables representing positive mark-to-market value of a derivative contract, remain unpaid for a period of 90 days from the specified due date for payment.

Further, NPAs are classified into sub-standard, doubtful and loss assets based on the criteria stipulated by RBI. A sub-standard asset is one, which has remained a NPA for a period less than or equal to 12 months. An asset is classified as doubtful if it has remained in the sub-standard category for more than 12 months. A loss asset is one where loss has been identified by the Bank or internal or external auditors or during RBI inspection but the amount has not been written off fully.

<u>Credit risk management policy</u>

The credit risk management policies of the bank address the following:

- Credit risk management framework, organisation, mandate & fundamental credit risk taking principles
- Counterparty / borrower/ issuer ratings
- Credit analysis & review frequency
- Credit exposure limits
- Credit limits for trading debt inventory in the secondary market
- Credit limit excess monitoring
- Management of problem assets
- Managing counterparty/borrower/issuer and country events
- Reporting of credit exposures of the bank
- Exposure norms to avoid credit risk concentrations: industry, sector, product and single/group borrower limits
- Loans and advances

- External commercial borrowings & trade credits
- Sale of financial assets to securitisation companies/reconstruction companies
- Purchase/sale of non performing financial assets
- CS mumbai branch credit committee
- Roles and responsibilities

6. Credit risk exposures

Credit risk exposures include all exposures as per RBI guidelines on exposure norms. Bank's credit risk exposure as on September 30, 2011 primarily includes interbank deposits placed. The following table provides details of Bank's fund based and non-fund based exposures as on September 30, 2011.

(Rs in '000)

Category	Fund based[1,2]	Non-fund based
Domestic	1,295,036	1,109,252
Overseas	4,204	-
Total	**1,299,240**	**1,109,252**

1. Includes fixed assets, CBLO and other receivables.
2. Excludes cash in hand, balance with RBI.

The entire credit risk exposure of the Bank as on September 30, 2011 is concentrated in India.

The industry-wise distribution of exposures as on September 30, 2011 is as under

(Rs in '000)

Industry	Fund based	Non-fund based
Banks[1,2]	47,588	1,109,252
Others[3]	1,251,652	-
Total	**1,299,240**	**1,109,252**

1. Includes balance with banks and accrued interest thereon.
2. Excludes cash in hand and balance with RBI.
3. Includes fixed assets, CBLO and other receivables.

The maturity pattern of assets on September 30, 2011 is detailed in the table below

(Rs in '000)

Maturity buckets	Cash & balances with RBI	Balances with banks & money at call and short notice	Investm-ents	Loans & advances	Fixed assets	Other assets	Total
Day 1	14,849	47,589	7,530,118	-	-	-	7,592,556
2 to 7 days	-	874,209	2,297,162	-	-	2,141	3,173,512
8 to 14 days	-		4,669	-	-	28,506	33,175
15 to 28 days	1,167		9,218	-	-	-	10,385
29 days to 3	2,304	-	3,503	-	-	106,410	112,217

months							
3 to 6 months	876	-	-	-	-	62,610	63,486
6 months to 1 year	-	-	23,527	-	-	67,849	91,376
1 to 3 years	5,882	-	-	-	-	18,813	24,695
3 to 5 years	-	-	-	-	-	131,724	131,724
Above 5 years	2,500	-	-	-	34,898	314,123	351,521
Total	**27,578**	**921,798**	**9,868,197**	**-**	**34,898**	**732,176**	**11,584,647**

The Bank has no advances and no non-performing investments as on September 30, 2011 and hence the disclosures pertaining to non-performing advances, non-performing investments and provisions for depreciation on investments are not applicable to the Bank.

7. Credit risk: Portfolios subject to the Standardised Approach

The Bank as on September 30, 2011 doesn't have any exposure requiring use of credit rating agencies to measure the credit risk. The exposures requiring measurement of credit risk as on September 30, 2011 are primarily inter-bank deposits placed requiring measurement through the counterparty's capital to risk-weighted assets ratio (CRAR) as required by RBI.

The credit exposures as on 31 March 2011 subject to the standardised approach by risk weights were as follows

(Rs in '000)

Category	Amount outstanding
Less than 100% risk weight[1,2]	2,282,540
100% risk weight	125,952
More than 100% risk weight	-
Deducted from capital	-
Total	**2,408,492**

1. Excludes cash in hand and balance with RBI.
2. Includes CBLO

8. Credit risk mitigation ('CRM')

According to the Bank's policy, where it has a clean legal opinion and credit risk management approval on the jurisdictional enforceability and transactional enforceability (i.e. based on appropriate legal documents executed with the counterparty) coupled with adherence to RBI guidelines, the CRM exposure calculations allow for the relevant transactions (on and off balance sheet) to be netted or reduced by credit risk mitigants. There is currently no such credit risk mitigants applied to the Bank.

9. Securitisation exposures

The Bank has not undertaken any securitisation deals during the reporting period.

10. Market risk in trading book

Credit Suisse AG Mumbai branch (Branch) continues to build on its investment activities as part of its growth strategy. All market exposures will be approved in accordance with both local branch appetite and CS's global guidelines.

The investment activity during the observed period has been in line with the Branch's risk appetite. The portfolio is mainly comprised of T-Bills, Govt. Bonds & Certificates of Deposits.

The current market risk models adopted by the branch are adequate to support the branch investment strategy.

11. Operational risk

The Bank has commenced operations in Feb 2011. At this stage the Bank has not adopted any specific operational risk capital assessment approach other than the Basic Indicator Approach prescribed by RBI for Operational Risk capital adequacy purposes.

12. Interest rate risk in banking book

Treasury desk manages the interest rate risk arising from the banking book. For the period ended September 30, 2011, the Bank has primarily invested in Central Government bonds, corporate bonds, and has a few interest rate swap and forex transactions. The Bank, to manage the interest rate risk exposures arising from the asset-liability positions from the banking book would use Interest Rate Swaps, FCY Currency Swaps, and Forward Rate Agreements. These risk exposures are separate from the trading/market making positions.

Interest rate risk is measured in terms of Dv01 (sensitivity to 1 basis point movement) and VaR (value at risk metric) by Strategic Risk Management ('SRM'). The Interest Rate Risk in Banking Book (IRRBB) exercise is carried out quarterly and will be made monthly when the regulator requires it to be. Since there were no loans and deposits at the period under review the behavioural study was not carried out. It will be done so when situation demands.