

UBS AG, Mumbai Branch
(Scheduled Commercial Bank)
(Incorporated in Switzerland with limited liability)

Basel II Pillar 3 Disclosures for the year ended 31 March 2013

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Basel II regulations do not require the Pillar 3 disclosures to be audited by an external auditor. Accordingly, the information/details presented in this section were not subject to audit by our statutory auditors.

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Background

The disclosures and analysis provided herein below are in respect of the Mumbai branch ('the Bank') of UBS 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 Pillar1 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.

UBS AG is the parent bank within the UBS Group ('the Group'). UBS Group is an international financial services group providing a broad range of financial services including advisory services, underwriting, financing, market making, asset management and brokerage on a global level, and retail banking in Switzerland.

As the bank is a branch operation of UBS AG (incorporated in Switzerland with limited liability), it operates in line with UBS Group principles and policies on risk management which are aligned to local regulations wherever required. For comprehensive disclosures and details of the UBS Group's Risk Management and Control Framework, please refer to the section 'Risk and Treasury Management' of the UBS Group's annual report section available in the Investor Relations section on the Group website www.ubs.com.

Scope of application

The Basel II framework applies to the Mumbai branch of UBS AG which is incorporated in Switzerland with limited liability. The Mumbai branch has no subsidiaries, including those directly owned/controlled by its Parent, which are subject to consolidation requirements under the generally accepted accounting principles (GAAP) or under the capital adequacy framework.

Capital structure

The capital structure of the Bank mainly comprises of interest free funds provided by its Head Office in the form of Tier 1 capital.

(Rs. 000s)

Composition of capital	As at 31 March 2013	As at 31 March 2012
Tier 1 Capital		
Head Office capital	19,102,404	19,102,404
Statutory Reserve	442,445	225,522
Balance in P&L	-	-
	19,544,849	19,327,926
Deductions:		
Amount receivable from Head Office (Other than Nostro Balances)	(15,948)	(56,343)
Deferred Tax Asset	(116,260)	(86,219)
Total Tier 1 Capital	19,412,641	19,185,364
Tier 2 Capital		
Provision for Standard Assets	114,005	47,302
Investment Reserve	<u>7,684</u>	<u>1,659</u>
	121,689	48,961
Total eligible capital base (Tier 1 + Tier 2)	19,534,330	19,234,325

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Capital adequacy

Sufficient capital must be in place to support business activities, according to both the bank's own internal assessment and the requirements of its regulators. Ensuring compliance with minimum regulatory capital requirements and targeted capital ratios is central to capital adequacy management.

The Bank aims to maintain sound and optimum capital ratios at all times, and it therefore considers not only the current situation but also projected developments in both its capital base and capital requirements. Currently the main source of the Bank's supply side of its capital is capital infusion by its Head Office.

The capital management process involves:

- (a) monitoring the regulatory capital and ensuring that minimum regulatory requirements and internal targets are met;
- (b) estimating the capital requirements based on forecast and strategic plan; and
- (c) reporting the regulatory capital situation to senior management on a regular basis.

Local Finance function is responsible for co-ordinating the above process. The Bank has developed and documented a suitable Internal Capital Adequacy Assessment Process (ICAAP).

The Bank's minimum capital requirements and capital ratios are follows.

Particulars	As at 31 March 2013	As at 31 March 2012
Capital requirements for credit risk	1,974,483	1,838,885
Portfolios subject to standardized approach	1,974,483	1,838,885
Securitization exposures	-	-
	1,149,280	1,257,146
Capital requirements for market risk		
Standardized duration approach		
• Interest rate risk	789,280	1,077,146
• Foreign exchange risk (including Gold)	360,000	180,000
• Equity risk	-	-
Capital requirements for operational risk	202,470	124,353
Basic indicator approach	202,470	124,353
Total Capital ratio	52.86%	53.75%
Tier 1 Capital ratio	52.53%	53.61%

As per Basel II requirements, the minimum capital to be maintained by the banks during initial periods has been subject to the prudential floors of 100%, 90% and 80% of the capital requirement under Basel I over the years ended 31 March 2008, 2009 and 2010 respectively. RBI vide circular (DBOD. BP.BC.No.71/21.06.001 / 2010-11) dated December 31, 2010 has advised banks to continue with prudential floor of 80% until 31 March 2013.

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Risk Management and Control Framework Overview

Risk management and control principles

There are 'five' key principles that underpin the Bank's risk management and control framework.

- Protection of financial strength
- Protection of reputation
- Business management is accountability
- Independent controls
- Risk disclosure

Risk management and control responsibilities

Key roles and responsibilities related to risk management and control are outlined below:

- The Branch Management and Risk Committee (MRC) has a strategic and supervisory function and is responsible for determining the Bank's fundamental approach to risk. The Committee is headed by Country Chief Executive Officer and its composition includes heads of business, logistic and control functions in India.
- The MRC is supported by the following key committees responsible for the implementation of risk management and control principles.
 - The Risk Control Sub-Committee which is responsible for the three major risk types viz. Credit, Market and Operational Risks.
 - The Asset Liability Sub-Committee (ALCO) with a responsibility for balance sheet management, liquidity and capital management, interest rate risk management.
- The head of each business division is accountable for the results and risks of his or her division as well as maintaining an appropriate risk management structure.
- The Branch Risk Officer and the Chief Operating Officer are responsible for the development and implementation of appropriate control frameworks for credit, market and operational risks with support from the business divisions.
- The Head of Finance and the Chief Operating Officer are responsible for ensuring that the Bank and its business divisions disclose their financial performance in a clear and transparent way, and that this reporting and disclosure meets all regulatory requirements and corporate governance standards. They are also responsible for the implementation of UBS Group's risk management and control frameworks in the areas of capital management, liquidity, funding and tax.

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Risk management and control framework

We recognize that taking, managing and controlling risk is a core element of UBS's business activities and that operational risks are an inevitable consequence of being in business. Therefore, our aim is not to eliminate every source of risk, but to identify and understand all key risks and potential risk concentrations, and to achieve an appropriate balance between risk and return. Ultimately we need to ensure that risk taking is in line with our strategic priorities and values, and within our risk-taking capacity.

The most important foundations for a sound risk culture and for excellence in risk management and control are:

1. Management Committee that establishes the firm's strategy in alignment with its risk principles, framework, capacity and major portfolio limits;
2. An executive management team that instills a sound risk culture throughout the firm by aligning business planning, execution, performance measurement and compensation decisions with the firm's strategy;
3. A business management team that makes risk identification, assessment, measurement and management critical components of its day-to-day business execution; and
4. Strong and efficient independent control functions that ensure sound oversight of the business activities and provide transparent risk / performance measurement and reporting.

Credit Risk

Credit risk is the risk of loss resulting from the failure of a client or counterparty to meet its contractual obligations to the Bank

Credit risk is inherent in traditional banking products such as loans, commitments to lend and contingent liabilities (for example, letters of credit) as well as in "traded products": derivative contracts such as forwards, swaps and options; repurchase agreements (repos and reverse repos); and securities borrowing and lending transactions. The risk control processes applied to these products are fundamentally the same, although the accounting treatment varies, as they can be carried at amortized cost or fair value, depending on the type of instrument and, in some cases, the nature of the exposure.

Credit risk is controlled and monitored by establishing appropriate limits and operational controls to manage credit exposure to individual counterparties and counterparty groups. There are specific policies and procedures applicable to different business segments.

The Bank uses its Group developed tools to support the quantification of the credit risk of individual counterparties for internal measurement and management, applying the three generally accepted parameters: probability of default, exposure at default and loss given default.

Credit risk regulatory capital requirements are computed based on the standardized approach prescribed by RBI.

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Quantitative disclosures

a) Analysis of credit risk exposures

(Rs. 000s)

	As at 31 March 2013		As at 31 March 2012	
	Gross credit risk exposures	66,842,800		65,030,831
Fund based *	26,670,006		8,021,365	
Non fund based	40,172,794		57,009,466	
Geographic distribution of exposures	<i>Domestic</i>	<i>Overseas</i>	<i>Domestic</i>	<i>Overseas</i>
Fund based	25,905,234	764,772	7,806,957	214,408
Non fund based	39,415,352	757,442	56,167,422	842,044
Total	65,320,586	1,522,214	63,974,379	1,056,452

*Excluding investments subject to market risk, fixed assets and other assets.

(Rs. 000s)

	As at 31 March 2013		As at 31 March 2012	
	Funded	Non - Funded	Funded	Non - Funded
Industry wise distribution of exposures				
Manufacturing –Heavy engineering	360,000	201,050	460,000	200,141
Manufacturing – Others	2,437,088	19,128	1,060,000	-
Trading	-	-	1,000,000	-
Information Technology	-	3,487,413	-	5,387,070
Telecommunications	4,800,000	136,020	-	308,183
Oil and Gas	1,085,700	1,320,583	-	1,120,017
Chemicals and Pharmaceuticals	-	-	557,410	-
Automobile	20,000	-	230,000	-
Diamonds and Jewellery	-	79,891	-	279,381
Infrastructure –Electricity	538,550	-	1,005,000	-
Others	-	-	-	7,169
Interbank and Financial Institutions	17,428,668	34,928,709	3,708,955	49,707,505
Total	26,670,006	40,172,794	8,021,365	57,009,466

Residual maturity breakdown of assets

As at 31 March 2013

(Rs. 000s)

Particulars	Investments	Advances	Inter-Bank Assets
Day 1	13,897,822	-	770,176
2-7 Days	1,608	324,500	-
8-14 Days	51,313	75,500	365,430
15-28 Days	25,823	1,721,750	-
29 Days and upto 3 Months	2,514,785	830,000	1,814,400
Over 3 Months upto 6 Months	1,034,604	1,989,588	2,409,500
Over 6 Months upto 1 Year	3,294,584	-	9,679,300
Over 1 Year upto 3 Years	813,914	4,800,000	-
Over 3 Years upto 5 Years	43,204	-	-
Over 5 Years	1,191	-	250,000
Total	21,678,848	9,741,338	15,288,806

*Interbank assets include the Reverse repo.

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As at 31 March 2012

(Rs. 000s)

Particulars	Investments	Advances	Inter-Bank Assets*
Day 1	26,090,188	230,000	219,866
2-7 Days	49,717	-	627,838
8-14 Days	600	1,344,000	-
15-28 Days	557,010	555,000	-
29 Days and upto 3 Months	1,657,971	1,633,410	250,000
Over 3 Months upto 6 Months	61,865	2,000,000	-
Over 6 Months upto 1 Year	957,484	550,000	-
Over 1 Year upto 3 Years	659,302	-	-
Over 3 Years upto 5 Years	329,716	-	-
Over 5 Years	5,303,491	-	-
Total	35,667,344	6,312,410	1,097,704

*Interbank assets include the Reverse repo.

b) Details of Non-performing assets (NPA)

(Rs. 000s)

	Year ended 31 March 2013	Year ended 31 March 2012
(i) Amounts of NPAs (Gross)		
- Substandard	-	-
- Doubtful 1	-	-
- Doubtful 2	-	-
- Doubtful 3	-	-
- Loss	-	-
(ii) Net NPAs	-	-
(iii) NPA Ratios		
- Gross NPAs to Net Advances (%)	-	-
- Net NPAs to Net Advances (%)	-	-
(iv) Movement of NPAs (Gross)		
- Opening balance	-	-
- Additions during the year	-	-
- Reductions during the year	-	-
- Closing balance	-	-
(v) Movement of provisions for NPAs (excluding provisions on standard assets)		
(a) Opening balance	-	-
(b) Provisions made during the year	-	-
(c) Write-off/ write-back of excess provisions	-	-
(d) Closing balance	-	-
(vi) Amount of non-performing investments	-	-
(vii) Amount of provisions held for non-performing investments	-	-
(viii) Movement of provisions for depreciation on investments		
(a) Opening balance	20,525	348

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(b) Provisions made during the year	-	20,177
(c) Write-off/ write-back of excess provisions	13,857	-
(d) Closing balance	6,668	20,525

Credit risk : Disclosures for portfolios subject to standardised approach

The Bank uses credit ratings of the external rating agencies prescribed by RBI in the new capital adequacy framework. Eligible rating agencies and the relevant type of exposures where those ratings can be used are as follows:

<i>Exposure/obligor category</i>	<i>Rating agency type</i>	<i>Rating agency names</i>
Foreign sovereigns, Foreign Banks (excluding their Indian branches) and Non resident corporates	International	<ul style="list-style-type: none"> • Standard & Poors • Moody's • Fitch International
Resident corporates, securitization	Domestic	<ul style="list-style-type: none"> • CRISIL Limited • CARE • Fitch (India) • ICRA Limited • Brickwork

The Bank adopts the RBI guidelines in transferring public issue ratings to comparable assets in the banking book. The key norms prescribed in this regard require one notch higher risk weight than the rated exposures for short term claims; unrated claims should be senior or at least pari passu with rated claims; matching of currency of the unrated claims with the rated claims.

(Rs. 000s)

Risk bucket wise analysis of bank's outstanding exposures (fund based and non fund based)*	As at 31 March 2013	As at 31 March 2012
Below 100% risk weight	57,108,218	56,290,613
100% risk weight	9,364,082	8,190,218
More than 100% risk weight	370,500	550,000
Deducted from capital	-	-
Total	66,842,800	65,030,831

*Excluding investments subject to market risk, fixed assets and other assets.

Credit risk management

A key aspect of credit risk management is proper identification of key risks and imposing appropriate credit conditions. While assessing credit facility for a counterparty, the Bank carries out a detailed appraisal exercise which covers areas such as Company's business, industry characteristics, peer analysis, financial analysis,

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identifying of key risks and risk mitigants. Financial analysis covers analysis of various financial ratios (e.g. leverage, interest cover, etc.) and these in turn are used to arrive at the risk rating of the counterparty and the credit appetite.

Key credit risk management tools include approving credit facilities in line with Company's credit profile, taking appropriate collateral, etc. Further the Bank tracks the credit profile of the Company on an ongoing basis and tracks early warning signal to assess any deterioration in credit profile/ assessment of exposure. Credit facilities to a counterparty are subject to annual review with limited review of financial performance/ industry update on a half yearly basis.

The OTC derivatives business is generally conducted under bilateral master agreements, which typically allow for the close-out and netting of all transactions in the event of default.

Securitisation

The Bank has not undertaken any new securitisation transaction during the reporting year. It had earlier participated in a securitisation transaction as an investor by having invested in Pass Through Certificates (PTCs) during financial year ended 31st March 2012, which continues to be outstanding in the books.

The major risks inherent in securitisation transactions are:

- (i) Credit Risk: Risk arising from defaults / delinquencies by the underlying obligors. The investor / assignee bear the loss in the event of the shortfalls in the transaction which exceed the credit enhancement provided.
- (ii) Market Risk: (a) Liquidity Risk: Risk arising on account of absence of secondary market to provide exit options to the investors / participants and (b) Interest Rate Risk: Mark to market risks arising on account of interest rate fluctuations.
- (iii) Prepayment Risk: Prepayments in the securitised pool result in early amortisation and loss of future interest (re-investment risk) to the investor on the prepaid amounts.
- (iv) Co-mingling Risk: Risk arising from co-mingling of funds which belong to the investor(s) with that of the originator and / or servicer. This risk occurs when there is a time lag between collection of amounts due from the obligors and payouts being made to the investors / assignee.
- (v) Servicer Risk: Risk arising on account of the inability of a collection and processing agent to collect monies from the underlying obligors as well as operational difficulties in processing the payments. In long tenor pools, the investor is exposed to the risk of servicer defaulting or discontinuing its operations in totality.
- (vi) Regulatory Risk: Risk arising due to non-compliance with extant guidelines. There could also be a conflict between the extant regulations and applicable laws.

Securitisation exposure under banking book outstanding as on 31 March 2013 is Nil. (Previous year- Nil)

<i>(Rs. 000s)</i>		
Securitisation exposure under Trading books	As at 31 March 2013	As at 31 March 2012
Aggregate amount of exposures securitised by the bank for which the bank has retained some exposures and which is subject to the market risk approach, by exposure type.	-	-

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<p>Aggregate amount of:</p> <ul style="list-style-type: none"> • on-balance sheet securitisation exposures retained or purchased broken down by exposure type; <p style="padding-left: 20px;">Comercial Vehicle loan</p> <p style="text-align: right;">491,980</p> <ul style="list-style-type: none"> • off-balance sheet securitisation exposures broken down by exposure type. <p style="text-align: right;">-</p>	491,980	749,379
<p>Aggregate amount of securitisation exposures retained or purchased separately for:</p> <ul style="list-style-type: none"> • securitisation exposures retained or purchased subject to Comprehensive Risk Measure for specific risk; and • securitisation exposures subject to the securitisation framework for specific risk broken down into different risk weight bands. <p style="padding-left: 20px;">Commercial Vehicle loan - 100%</p> <p style="text-align: right;">491,980</p>	-	-
<p>Aggregate amount of:</p> <ul style="list-style-type: none"> • the capital requirements for the securitisation exposures, subject to the securitisation framework broken down into different risk weight bands. <p style="padding-left: 20px;">Commercial Vehicle loan - 100%</p> <p style="text-align: right;">8,771</p> <ul style="list-style-type: none"> • securitisation exposures that are deducted entirely from Tier 1 capital, credit enhancing I/Os deducted from total capital, and other exposures deducted from total capital(by exposure type). <p style="text-align: right;">-</p>	8,771	13,312

Market risk in Trading Book

Market risk is the risk of loss resulting from adverse movements in market variables. Market variables include observable variables such as interest rates, foreign exchange rates, equity prices, credit spreads and commodity (including precious metal) prices, and variables which may be unobservable or only indirectly observable, such as volatilities and correlations.

Market Risk includes exposure to two types of risk factor: 'General Market Risk Factors' and 'Tradable Single Name Exposures' / 'Issuer Risk'. General market risk factors are driven by macroeconomic, geopolitical and other market-wide considerations, independent of any instrument or single issuer or counterparty. They include such things as interest rates, the levels of equity market indices, exchange rates, commodity prices (including the price of energy and metals), as well as general credit spreads. The associated volatility of these risk factors and the correlations between them are also considered to be general market risk factors. Tradable Single Name Exposures' / 'Issuer Risk', on the other hand, are price risks resulting from changes in the financial condition of a

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specific issuer, including event and default risk, and other risks which cannot be explained by changes in the general market risk factors.

Trading businesses are subject to multiple market risk limits. Traders are required to manage their risks within these limits which in turn may involve employing hedging and risk mitigation strategies. These strategies can expose the Bank to risk as the hedge instrument and the position being hedged may not always move in parallel (often referred to as "basis risk"). Senior management and risk controllers may also give instructions for risk to be reduced, even when limits are not exceeded, if particular positions or the general levels of exposure are considered inappropriate.

The Bank has two major portfolio measures of market risk – Value-at-Risk (VaR) and stress loss for internal management purposes. They are complemented by concentration and other supplementary limits on portfolios, sub-portfolios, asset classes or products for specific purposes where standard limits are not considered to provide comprehensive control.

Market risk regulatory capital requirements are computed based on the standardized approach prescribed by RBI.

Value at Risk (VaR)

VaR is a statistical measure of market risk, representing the market risk losses that potentially could be realized over set time horizon at an established level of confidence. The Bank's Group VaR model is used for internal management purposes only.

The key features of the bank's Group-wide VaR model framework used for internal management purposes are:

- ❖ VaR model makes use of five years of historical data and is calibrated to a 1-day 95% measure.
- ❖ VaR is calculated daily, based on end-of-day positions, and by applying the historical changes in market risk factors directly to current positions- a method known as historical simulation.

Realized market losses can differ from those implied by the VaR measure for many reasons. All VaR measures are subject to limitations and must be interpreted accordingly.

Value-at-Risk (Based on 1-day, 95% confidence level)

(Rs.000s)

	Year ended 31 Mar 2013		
	Min	Max	Average
Interest rate & Fx risk	15,322	129,037	50,218

(Rs.000s)

	Year ended 31 Mar 2012		
	Min	Max	Average
Interest rate & Fx risk	23,386	189,119	85,850

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Stress loss

As a complement to VaR, macro stress scenarios combining various market moves to reflect the most common types of potential stress events, and more targeted stress tests for concentrated exposures and vulnerable portfolios.

Quantitative disclosures

	(Rs. 000s)	
	As at 31 March 2013	As at 31 March 2012
Capital requirements for market risk	1,149,280	1,257,146
Standardized duration approach		
• Interest rate risk	789,280	1,077,146
• Foreign exchange risk (including Gold)	360,000	180,000
• Equity risk	-	-

Interest rate risk in the banking book (IRRBB)

The interest rate risk in banking book (IRRBB), as of now is not material and currently monitored based on monthly interest rate sensitivity analysis report by bucketing the exposures into re-pricing buckets. The increase/decrease in earning due to a downward/upward shock of 200 basis points in the banking book across all currencies is Rs. 68,877 (000s) (Pr. year Rs.2,97,281(000s)).

Operational risk

Operational risk is the risk of loss resulting from inadequate or failed internal processes, people and systems (for example failed IT systems, or fraud perpetrated by a UBS employee), or from external causes, whether deliberate, accidental or natural. Operational risks are monitored and, to the extent possible, controlled and mitigated to levels considered acceptable by senior management.

All functions, whether business, control or logistics functions, must manage the operational risks that arise from their activities. Operational risks are pervasive, as a failure in one area may have a potential impact on several other areas. The Bank has therefore established a cross-functional body to actively manage operational risk as part of its governance structure.

The foundation of the operational risk framework is that all functions have adequately defined their roles and responsibilities. The functions can then collectively ensure that there is adequate segregation of duties, complete coverage of risks and clear accountability.

The functions use their controls to monitor compliance and assess their operating effectiveness in several ways, including self-certification by staff, tracking of a wide range of metrics (for example, the number and characteristics of client complaints, deal cancellations and corrections, unreconciled items on cash and customer accounts, and systems failures), and the analysis of internal and external audit findings.

For local regulatory capital measurement purposes, the Bank follows the Basic Indicator Approach.