

Risk Management Investor Day

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Balbir S. Bakhshi
Head Economic Capital

Risk Information: Disclosure and Use

Cautionary statement

Cautionary statement regarding forward-looking and non-GAAP information

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This presentation contains non-GAAP financial information. Information needed to reconcile such non-GAAP financial information to the most directly comparable measures under GAAP can be found in Credit Suisse Group's first quarter report 2007.

Introduction

- We operate globally, across many complex, fast moving markets
- Strong 'risk radar' is critical
 - Old methods – position reports, are simpler, but inadequate
 - Newer methods – statistical, model-driven approaches
- Newer methods can give a good portfolio view, but can be challenging to interpret ('black box')
- Purpose of this session is to help you
 - Understand the business relevance of our risk measurement tools
 - Use and interpret our risk disclosures

Agenda

Our risk measurement framework

Value-at-Risk (VaR)

Economic Capital

Our risk measurement framework

= today's focus

- Use a range of tools to manage risk
- Tools cover day-to-day trading conditions as well as extreme events
- VaR and Economic Capital most relevant for broad perspective

Portfolio tools	Economic Capital
	Value-at-Risk (VaR)
	Bank-wide stress testing / scenarios
Detailed specific risk tools	Derivative credit equivalents
	Country exposures and limits
	Monte-Carlo credit exposure scenarios
	Position and exposure reporting

Agenda

Our risk measurement framework

Value-at-Risk (VaR)

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What is Value-at-Risk?

~ 2 million positions

e.g \$20m of stock X
\$40m of EUR FX option Y
\$30m JPY interest rate cap

Consolidate down to
50,000 risk factors

e.g. US equity market
net EUR FX
net JPY rate position

X

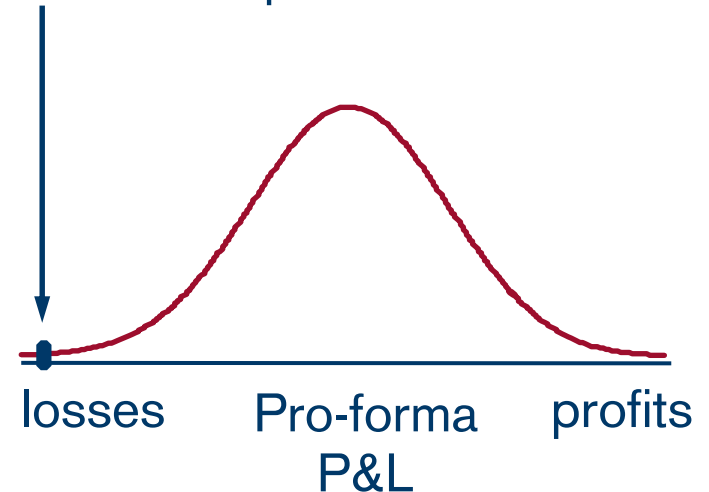
Historical market data

e.g. S&P500 prices
EUR FX Rates
JPY yield history
(>2 years of daily data)

Compute
pro-forma
P&L

(risk factors
x
market data)

VaR = 99th percentile loss

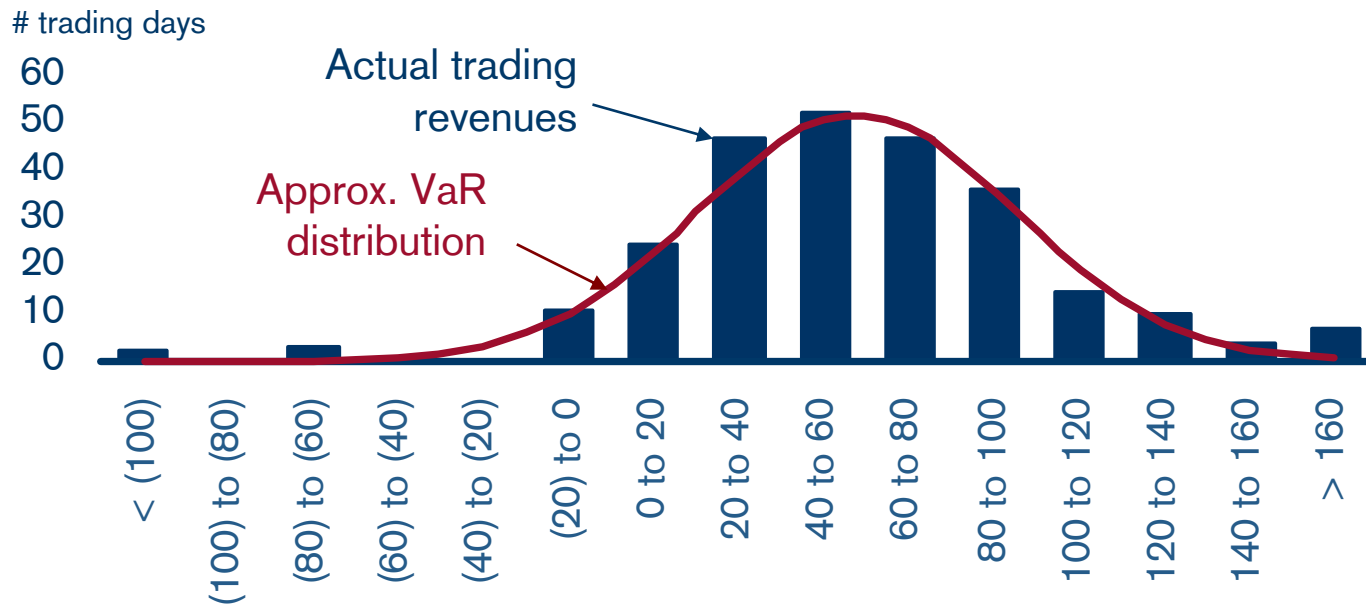


- Starting point for understanding trading risks
- Estimate of the range of P&L in normal markets
- Built using 'pro-forma P&L' concept, i.e. today's portfolio compressed into 'risk factors', which are multiplied by historical price moves

Does VaR work?

- A good VaR model can estimate volatility of trading P&L
 - Compare VaR distribution of predicted revenues with actual results
 - Good fit for normal markets at Credit Suisse

VaR (“predicted range”) compared with actual trading revenues (2006)



Note:

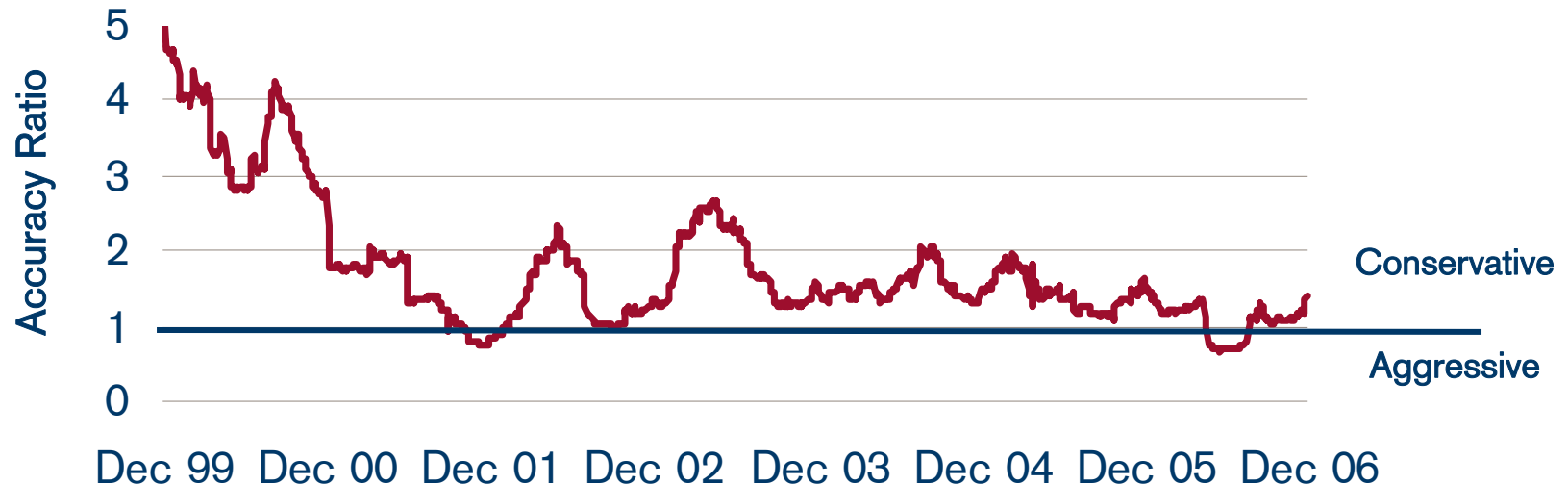
Chart shows the approx. P&L distribution 'predicted' by average VaR over 2006, compared to the actual P&L distribution achieved.

The VaR curve is shifted right by the average daily commission & fee revenues (not part of VaR model but form part of trading revenues) for comparative purposes.

VaR model accuracy trend

- A ratio substantially >1 = conservative, <1 = aggressive
- Accuracy in recent years has improved
- Continuous testing & upgrading is key
- Also, detailed regulatory oversight over our VaR model

VaR Accuracy Ratio 2000 - 2006



VaR is not without controversy

Strengths

- Simple risk estimate for a diverse portfolio
- Good measure in normal markets
- Can highlight areas for further “drill-down” risk analysis
- (Some) comparability across desks, time and institutions

Weaknesses

- Not designed for crisis conditions
- Does not tell anything about events beyond the 99% worst
- Trading risk only - not the full risk picture
- Relies on historical volatility and can have a “short memory”

- Need to understand limitations and keep the model relevant
- With these caveats, VaR can be a very useful tool

Addressing VAR weaknesses – Stress Testing

- Direct measure of P&L impact from market moves
- Use a range of “scenarios” with graduated severities
 - High frequency, smaller events through to very extreme events
- Especially important for complex non-linear portfolios
- Used in risk discussions around potential future market events
 - Both asset class specific and “combination events” (e.g. “flight-to-quality”)
- Integrated into management reporting for the whole bank
- Complements VaR in market risk management

Where do we take market risk?

- Biggest drivers

- Interest rate & credit trading
- Equity: cash, derivatives & proprietary trading
- Commodities small but growing quickly

Category	Average VaR 2006	Growth Indicator
Int. Rate & Credit	57	↗
Foreign Exchange	19	→
Equity	59	↗
Commodity	10	↑
Sub Total	145	
Diversification	(65)	
Total	80	↗

- Trading limits based heavily on risk-type VaR

- Risk type limits by trading areas (i.e. more granular than above chart)

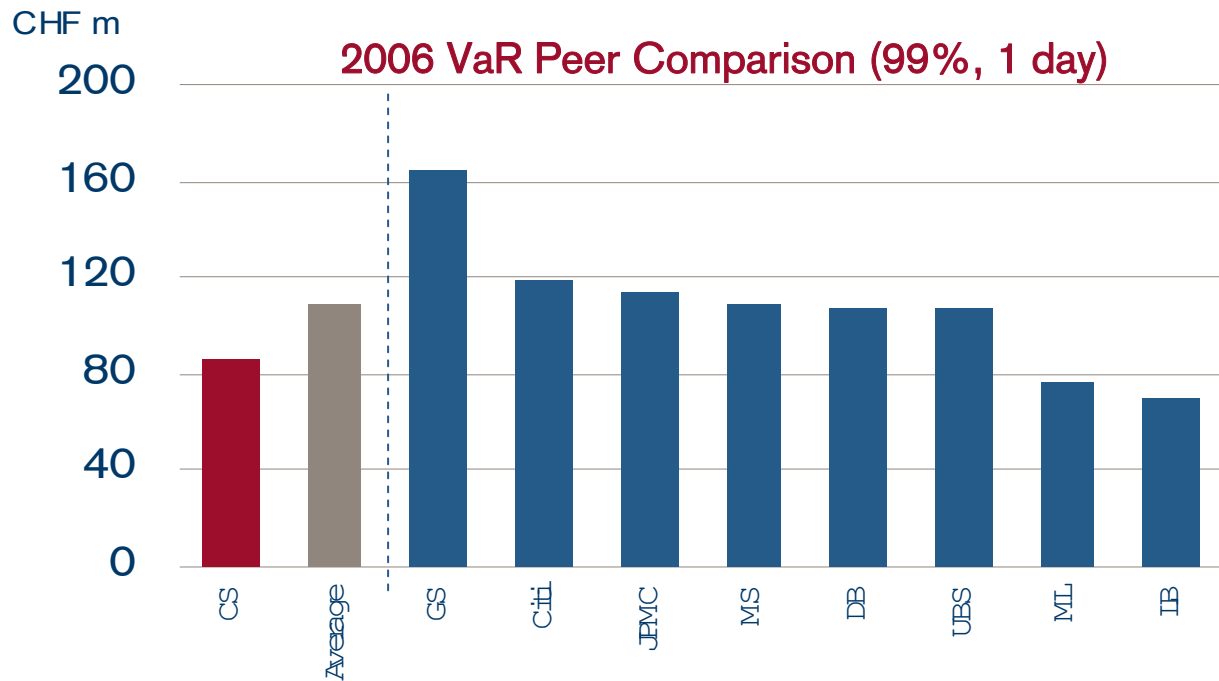
- VaR limit framework extends throughout bank

- From total CS limit (approved by the BoD) to individual desk/trader level

- Limit structure enforces risk balance & discipline on daily basis

VaR peer comparison

- Two measures for peer comparison (chart shows average)
 - Reported VaR: convert all peer information to 99%, 1-day
 - Observed VaR: volatility of daily trading result converted to VaR standard
- Credit Suisse VaR is approx. 80% of peer average (65% in 2004)

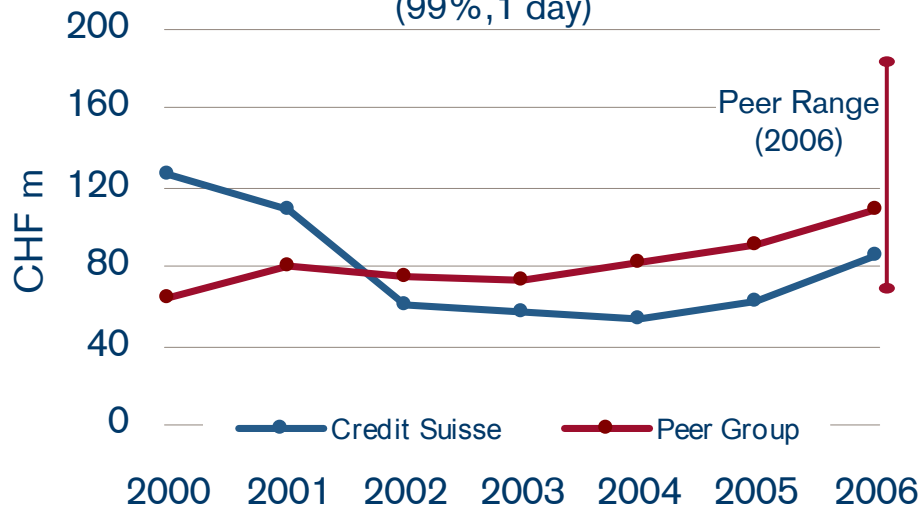


Note: Chart shows 50/50 blend of Observed VaR and Average Reported VaR, converted to common statistical standard

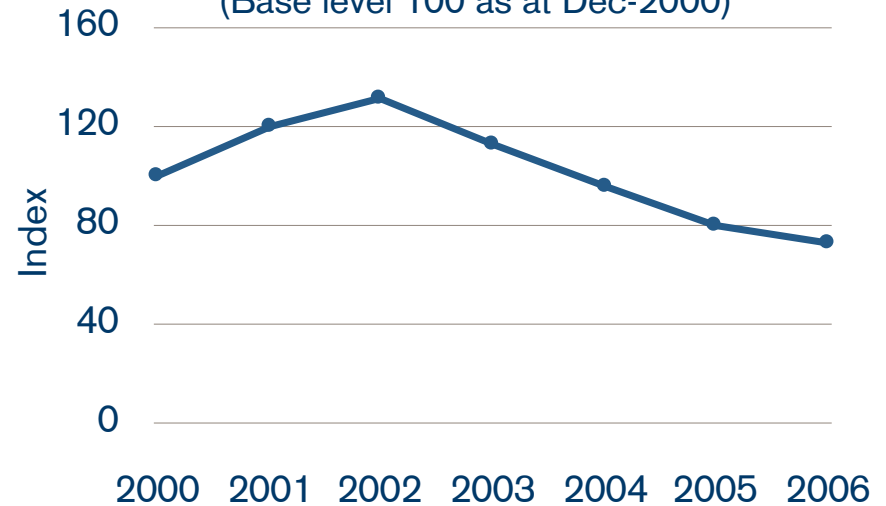
VaR Trends

- We have grown VaR in recent years, in line with our strategy
- Most peers have also expanded risk
- True growth faster at most firms due to “market data” effects

CS VaR Trend vs. Peer Group
(99%, 1 day)



Index of 2-Year Market Volatility
(Base level 100 as at Dec-2000)



Source: Annual Reports and 10K filings. Peer group includes GS, MS, ML, DB, Citi, UBS, JPM & LB. All peer VaR converted to 99% 1day for consistency

Note: Index based upon the rolling 2-year volatility of a sample portfolio

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Our risk measurement framework

Value-at-Risk (VaR)

Economic Capital

Economic Capital – Introduction

- Needed a tool for comprehensive “risk radar”
- Consistent measurement of all financial risks – including market, credit, investment, etc
- “Common risk currency”
- Tests portfolio under extreme conditions
 - “capital” style model focused on severe stress events
- Key language for risk discussions
 - Trends & concentrations
 - Capital adequacy
 - Risk - return
 - Key for strategic discussions

Uses of Economic Capital

- We use Economic Capital in many processes and disclosures

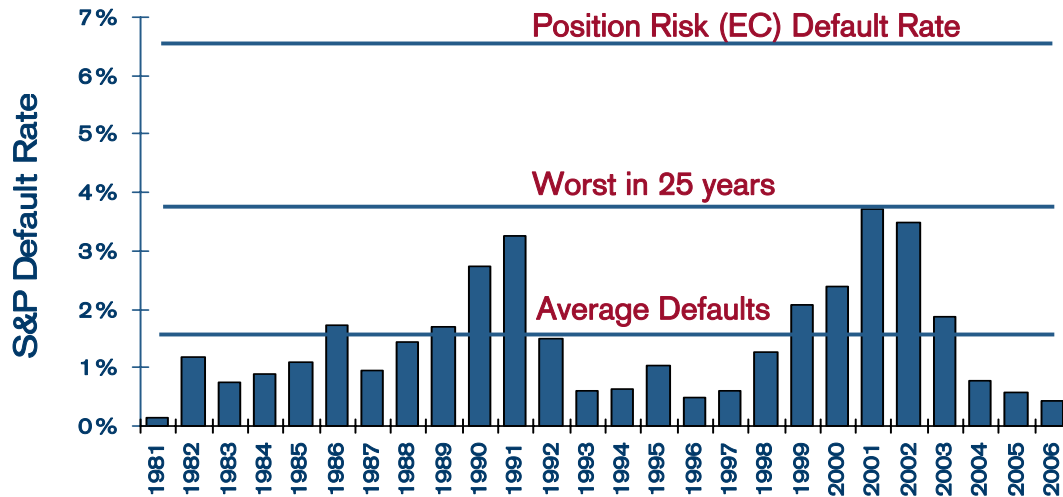
Uses of Economic Capital	Business Purpose
Risk Management “Position Risk”	<u>How much risk are we taking?</u> <ul style="list-style-type: none">- MIS - Highlights trend and focus areas- Limits - Including BoD limit (top level constraint on Risk Appetite)
Capital Adequacy “Coverage Ratio”	<u>Do we have enough capital to support our risk?</u> <ul style="list-style-type: none">- Internal measure of capital strength- Integral part of strategic plan process
Risk – Return “Return-on-EC”	<u>Where should we allocate risk capital?</u> <ul style="list-style-type: none">- Key measure of performance

Note: A higher confidence level of 99.97% is used for Position Risk in Capital Adequacy and Risk-Return measures (99% used for Risk Management)

Economic Capital – Getting inside the “black box”

Economic Capital	Definition	Inputs (not exhaustive)
<p>Position Risk (85%)</p>	<p>Risk of loss from positions both on/off balance sheet</p>	<p><u>Credit Risk:</u> Rating / probability of default, exposures, recovery rates, and maturity</p> <p><u>Market Risk:</u> VaR approach but using long (11+yrs) data plus additional “gap” risks</p> <p><u>Investment Risk:</u> Life stage of investment and industry</p>
<p>Operational Risk (11%)</p>	<p>Risk of loss from operational events e.g. fraud, law suits</p>	<p>Internal and external operational loss data and probability of losses</p>
<p>Other Risk (4%)</p>	<p>Risk of other losses from fee based businesses and fixed assets</p>	<p><u>Expense Risk:</u> Earnings vs. expense volatility</p>

Example – Position Risk model for corporate loans



Rating	AA	A	BBB	BB	B
Position Risk as % of notional	1%	2.5%	6%	11%	15%

Building Blocks – Market

- High Default Rates (see left)
- Severe Credit Migration
- Spread Widening
- Lower Recoveries

Building Blocks - Positions

- Position Size
- Counterparty Rating
- Collateral/ Loss Risk
- Maturity

Default rate data source: Standard & Poors

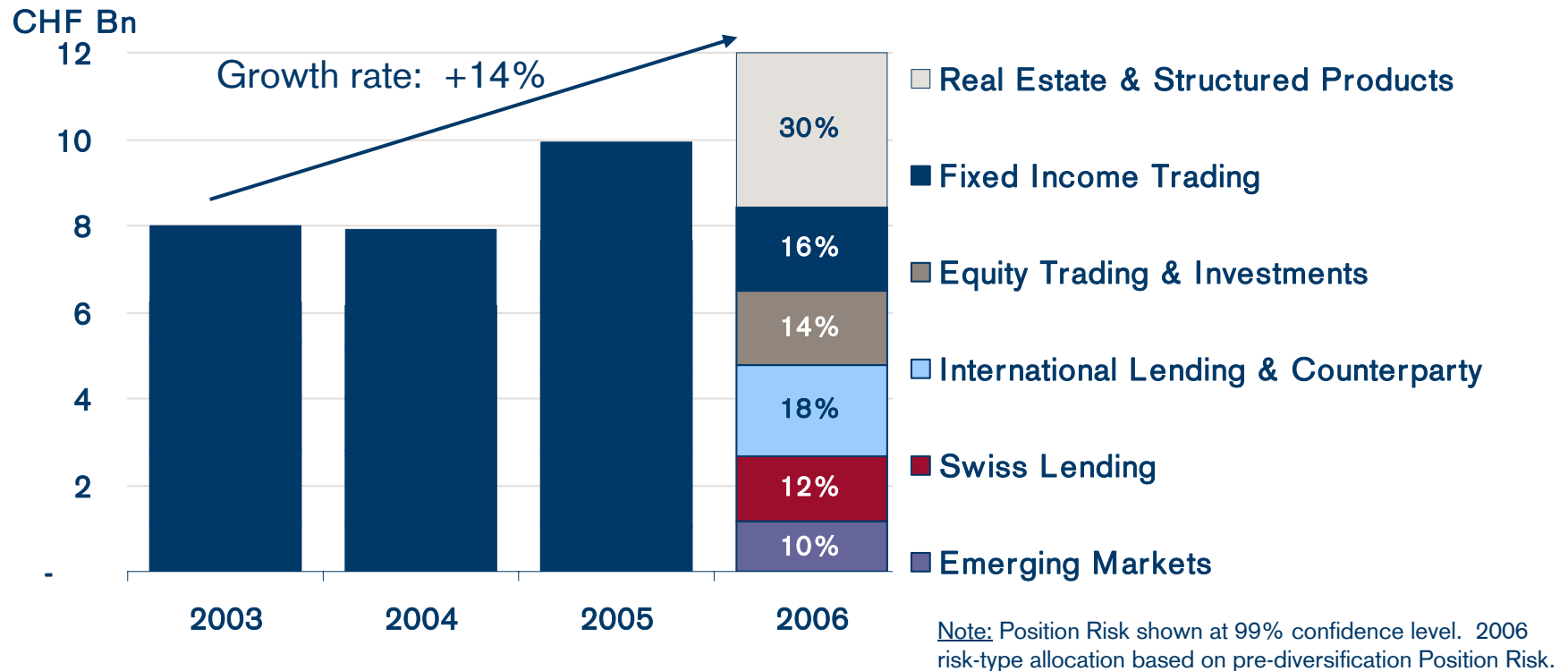
Example: Position Risks for some sample assets

Asset Quality	Position Risk (% Notional)	
	0%–1%	US T-Bill
	1%–10%	US Govt 5 yr A Corp Bond 10yr (floating) Resi. Mortgage (low LTV)
	10%–30%	B Corp Bond 10yr (floating rate) Residential Mortgage Bond (BBB) Mexico Bonds (BBB)
	30%–50%	S&P 500 Index Commercial Mezz. Loan (75%-85% LTV) CCC Corporate Bond 10yr (floating rate)
	+50%	Ecuador bonds (CCC) Mortgage Securitization Residuals Technology Stocks and Equity Options

Position Risk trend and allocation

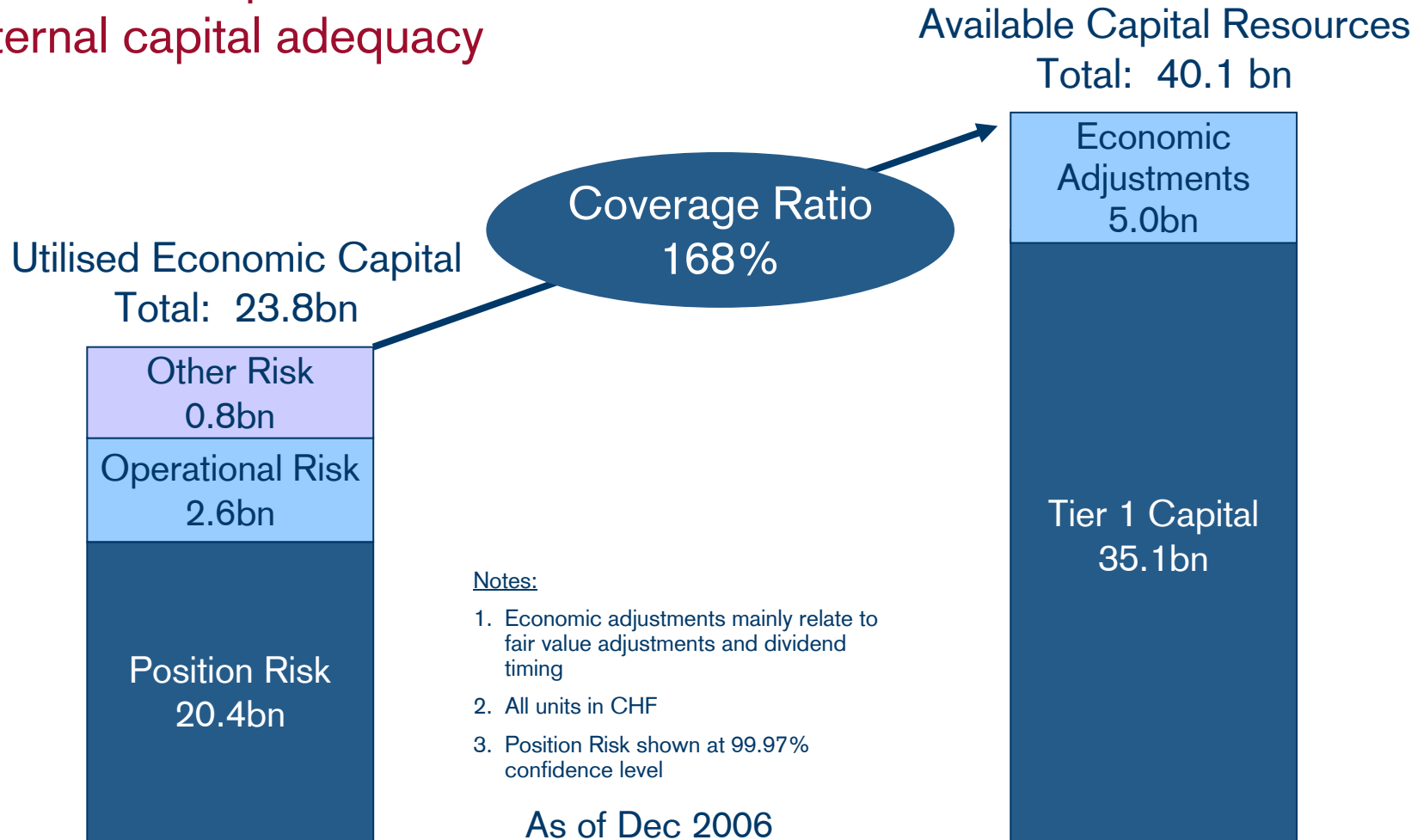
EC figures show firm wide risk growth and risk allocation

Total Credit Suisse Position Risk



Economic Capital Coverage Ratio

Economic Capital is used to estimate internal capital adequacy



Closing remarks

- Robust set of risk tools – now “road-tested” for several years
- Use of risk tools integrated into strategic decision making
- Tracking our risk information over time will allow you to:
 - Build a picture of where we take our risks
 - Assess how that risk is changing over time

CREDIT SUISSE



Questions & Answers