

Credit Suisse International

**Basel III
Pillar 3 Disclosures 2014**

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Introduction

This document comprises the Pillar 3 disclosures for Credit Suisse International ('CSI' or 'the Bank') as at 31 December 2014. It should be read in conjunction with CSI's 2014 Annual Report which can be found at: www.credit-suisse.com

The Basel II Framework was updated by the introduction of Basel III, and in the EU the amended regime was implemented from 1 January 2014 by means of a Directive and a Regulation, collectively known as 'CRDIV'. These Pillar 3 disclosures are prepared to meet the regulatory requirements set out in Part Eight of the Capital Requirements Regulation ('CRR'). Pillar 3 aims to promote market discipline and transparency through the publication of key information on capital adequacy, risk management and remuneration.

CSI is authorised by the Prudential Regulation Authority ('PRA') and regulated by the Financial Conduct Authority ('FCA') and the PRA.

Basis and frequency of disclosures

Where disclosures have been withheld, as permitted, on the basis of confidentiality, immateriality, or being proprietary in nature, this is indicated. Pillar 3 disclosures are published annually and concurrently with the annual report, although key capital adequacy ratios are disclosed on a quarterly basis and may be found on the Credit Suisse website at www.credit-suisse.com

The annual report is prepared under International Financial Reporting Standards ('IFRS') and accordingly, certain information in the Pillar 3 disclosures may not be directly comparable. A reconciliation of regulatory 'own funds' calculated under CRDIV to CSI's 2014 Statement of Financial Position is presented in the Capital Management section below.

As noted, CRDIV was implemented from 1 January 2014, so any prior year (2013) comparatives provided were prepared under the previous Basel II regime and this is indicated where applicable.

This Pillar 3 document has been verified and approved in line with internal policy. It has not been audited by CSI's external auditors unless, where, it refers to information extracted from CSI's 2014 Annual Report.

Basis of consolidation

These Pillar 3 disclosures are prepared on a solo basis. CSI prepares its IFRS financial statements on a consolidated basis ('CSI group'), including its two wholly-owned subsidiaries:

- CSFB International Trading LLC; and
- Credit Suisse First Boston International (USA) Inc.

Neither of these subsidiaries conducts trading or risk-taking activity and the aggregate carrying value of these subsidiaries as reported in the IFRS financial statements as at 31 December 2014 was USD10m (2013: USD10m).

Restrictions on transfer of funds or regulatory capital within the CSI group

In general, the restrictions around the repayment of liabilities and transfer of regulatory capital within the CSI group are related to constraints that are imposed on entities by local regulators. The movement of capital may also be subject to tax constraints where there are cross-border movements or thin capitalisation rules.

Remuneration disclosures

The remuneration disclosures required by CRR Article 450 can be found in a separate document ('Pillar 3 – UK Remuneration Disclosures 2014') on the Credit Suisse website at: www.credit-suisse.com

Capital management

Overview

The Credit Suisse group ('CS group') considers a strong and efficient capital position to be a priority. Consistent with this, CSi closely monitors its capital adequacy position on a continuing basis to ensure ongoing stability and support of its business activities. This monitoring takes account of the requirements of the current regulatory regime and any forthcoming changes to the capital framework. The CS group continues to provide confirmation that it will ensure that CSi is able to meet its debt obligations and maintain a sound financial position over the foreseeable future.

Multi-year business forecasts and capital plans are prepared by CSi, taking into account its business strategy and the impact of known regulatory changes. These plans are subjected to various stress tests, reflecting both macroeconomic and specific risk scenarios, as part of the Internal Capital Adequacy Assessment Process ('ICAAP'). Within these stress tests, potential management actions, that are consistent with both the market conditions implied by the stress test and the stress test outcome, are identified. The results of these stress tests and associated management actions are updated regularly, as part of the ICAAP, with results documented and reviewed by the Board of Directors. The ICAAP then forms the basis for any SREP ('Supervisory Review and Evaluation Process') review that the PRA conducts when assessing an institution's level of regulatory capital.

Own funds

Article 437 of the CRR requires disclosure of the main features of Common Equity Tier 1 ('CET1'), Additional Tier 1 ('AT1') and Tier 2 instruments. CSi's CET1 comprises permanent share capital of ordinary shares and reserves. The ordinary shares carry voting rights but do not carry the right to receive dividends. CSi has no AT1 capital and the terms of its Tier 2 capital instruments are disclosed in Appendix 1.

CSi's capital composition and principal capital ratios are presented in the tables below, together with a reconciliation to CSi's 2014 Statement of Financial Position. No amount shown in 2014 'own funds' is subject to CRDIV transitional provisions.

Capital composition (USD million)

| As at 31 December | 2014 | 2014 | | 2013 |
|---|--------------------------------|--|----------------|----------------------------------|
| | Own funds (under CRD IV) | Statement of Financial Position ⁽¹⁾ | Difference | Own funds (under Basel II) |
| Note | (a) | (b) | (a) - (b) | |
| Tier 1 (and CET1) capital | | | | |
| Ordinary shares | 13,108 | 13,108 | 0 | 13,108 |
| Share premium | 12,699 | 12,699 | 0 | 12,699 |
| Retained earnings | (1,815) | (1,815) | 0 | (779) |
| Accumulated other comprehensive income | (4) | (4) | 0 | 0 |
| Tier 1 (and CET1) before prudential filters and regulatory adjustments | 23,988 | 23,988 | 0 | 25,028 |
| Prudential filters and regulatory adjustments | | | | |
| Cash flow hedge reserve | (2) 5 | 0 | 5 | 0 |
| Elimination of losses / (gains) on fair valued liabilities | (3) 33 | 0 | 33 | 37 |
| Elimination of losses / (gains) on derivative liabilities | (4) (123) | 0 | (123) | 0 |
| Prudent valuation adjustments | (5) (1,013) | 0 | (1,013) | 0 |
| Intangible assets | (6) (364) | 0 | (364) | (433) |
| Excess of expected losses over credit risk adjustments | (7) (162) | 0 | (162) | 0 |
| Securitisation positions (Trading Book) | 0 | 0 | 0 | (33) |
| Total Tier 1 (and CET1) capital | 22,364 | 23,988 | (1,624) | 24,599 |
| Tier 2 capital | | | | |
| Subordinated loans | (8) 7,988 | 8,526 | (538) | 8,081 |
| Total Tier 2 capital | 7,988 | 8,526 | (538) | 8,081 |
| Total capital ('own funds') | 30,352 | 32,514 | (2,162) | 32,680 |

Capital ratios

| As at 31 December | 2014 | 2013 |
|----------------------|-------|-------|
| Common Equity Tier 1 | 12.4% | N/A |
| Tier 1 | 12.4% | 31.3% |
| Total Capital | 16.8% | 41.6% |

Notes to table of Capital Composition

- (1) 2014 Statement of Financial Position for (i) Total Equity and (ii) subordinated debt amounts prepared under IFRS.
- (2) Represents fair value reserves related to gains on cash flow hedges of financial instruments that are not fair valued [CRR Article 33(1) (a)].
- (3) Represents gains on liabilities that are valued at fair value resulting from changes in CSI's credit standing [CRR Article 33(1)(c)].
- (4) Represents losses on derivative liabilities that result from changes in CSI's credit standing [CRR Article 33(1)(b)].
- (5) A prudent valuation adjustment is applied in respect of fair valued instruments as required under CRDIV regulatory capital rules [CRR Articles 34, 105].
- (6) Intangible assets and goodwill do not qualify as capital for regulatory purposes under CRDIV [CRR Articles 36(1)(b), 37].
- (7) For institutions using the AIRB Approach, represents negative amounts resulting from the calculation of expected loss amounts.
- (8) Subordinated debt is either accrual accounted or fair valued under IFRS (eg. including accrued interest) whereas 'own funds' recognises it at nominal value.

Countercyclical capital buffer

The Financial Policy Committee ('FPC') of the Bank of England is responsible for setting the UK Countercyclical Capital Buffer ('CCB') rate, ie. the CCB rate that applies to UK exposures of banks, building societies and large investment firms incorporated in the UK. In setting the CCB, the FPC considers a number of core indicators such as credit to GDP ratios. CRDIV, as implemented in the UK, includes a transitional period, during which the FPC is responsible for deciding whether CCB rates set by EEA States should be recognised and for taking certain decisions about third country rates, including whether a higher rate should be set for the purposes of UK institutions calculating their CCBs.

CCBs can be applied at a CS group, sub-consolidated or legal entity basis. CRDIV also includes the potential for a Systemic Risk Buffer ('SRB') which could be similarly applied.

No CCB or SRB rates were set for 2014.

Capital resources requirement

The Pillar 1 capital requirements of CSI are summarised below, along with the relevant risk-weighted asset ('RWA') values. Credit risk capital requirements and RWAs are further broken down by risk-weight methodology and exposure class:

| RWAs and capital requirements (USD million) | | | | |
|---|-----------------------|---|--------------------------|--|
| As at 31 December | 2014 | 2014 | 2013 | 2013 |
| | RWAs (under CRDIV) | Capital Requirement (under CRDIV) | RWAs (under Basel II) | Capital Requirement (under Basel II) |
| Credit and counterparty risk | | | | |
| <i>Standardised Approach</i> | | | | |
| Central governments or central banks | 861 | 69 | | |
| Regional governments or local authorities | 6 | 0 | | |
| Public sector entities | 117 | 9 | | |
| Multilateral development banks | 173 | 14 | | |
| Institutions | 11,393 | 911 | | |
| Corporates | 10,502 | 840 | | |
| Claims on institutions and corporates with a short-term credit assessment | 2,143 | 171 | | |
| Other items | 5 | 0 | | |
| Total Standardised Approach | 25,200 | 2,014 | | |
| <i>Advanced Internal Ratings Based Approach (AIRB)</i> | | | | |
| Central governments and central banks | 6,635 | 531 | 6,109 | 489 |
| Institutions | 23,489 | 1,879 | 17,769 | 1,422 |
| Corporates - other | 33,397 | 2,672 | 27,981 | 2,238 |
| Equity | 66 | 5 | 93 | 7 |
| Securitisation positions | 255 | 20 | 607 | 49 |
| <i>of which: securitisation</i> | 45 | 4 | 0 | 0 |
| Non-credit obligation assets | 568 | 45 | 0 | 0 |
| Total AIRB Approach | 64,410 | 5,152 | 52,559 | 4,205 |
| <i>Credit Valuation Adjustment (CVA) and settlement or delivery risk</i> | | | | |
| CVA - Standardised Method | 15,046 | 1,204 | | |
| CVA - Advanced Method | 15,711 | 1,257 | | |
| Settlement or delivery risk | 12 | 1 | 0 | 0 |
| Total CVA and settlement or delivery risk | 30,769 | 2,462 | 0 | 0 |
| (i) Total credit and counterparty credit risk | 120,379 | 9,628 | 52,559 | 4,205 |
| Market risk | | | | |
| Market risk under PRA Standard Rules | 763 | 61 | 438 | 35 |
| Market risk under Internal Models Approach | 25,069 | 2,005 | 22,151 | 1,772 |
| (ii) Total market risk | 25,832 | 2,066 | 22,589 | 1,807 |
| Other risks | | | | |
| Contributions to the default fund of a CCP | 1,086 | 87 | | |
| Operational risk - Basic Indicator Approach | 2,910 | 233 | 3,338 | 267 |
| Large exposures (Trading Book) | 30,734 | 2,459 | 0 | 0 |
| (iii) Total other risks | 34,730 | 2,779 | 3,338 | 267 |
| Grand total RWA and capital requirements (i) - (iii) | 180,941 | 14,473 | 78,486 | 6,279 |

Credit valuation adjustment capital charge

Credit valuation adjustment ('CVA') is a capital charge introduced by CRDIV in respect of potential mark-to-market losses on OTC derivative exposures caused by fluctuations in counterparty credit spreads. CVA represents the difference between the risk-free value of an OTC portfolio and the likely realisable value of that portfolio.

Two approaches are used by CSi to calculate the CVA capital charge:

- **Standardised Method:** CVA calculated as prescribed by the CRR formula with the underlying OTC exposure derived using the non-model exposure calculation (CCR Mark to Market Method ('CCRMTM')); and
- **Advanced Method:** CVA is calculated by an advanced method using value at risk ('VaR') methodology, where the underlying OTC exposure is calculated by the Internal Model Method ('IMM').

Risk management

Overview

CSi's risk management framework is based on transparency, management accountability and independent oversight. Risk management plays an important role in CSi's business planning process and is strongly supported by senior management and the Board of Directors. The primary objectives of risk management are to protect CSi's financial strength and reputation, while ensuring that capital is well deployed to support business activities and increase shareholder value. CSi has implemented risk management processes and control systems and it works to limit the impact of negative developments by monitoring all relevant risks including credit, market, liquidity, operational and reputational as well as managing concentrations of risks.

Board of directors

The Directors are responsible for reviewing the effectiveness of CSi's risk management and systems of financial and internal control. These are designed to manage rather than eliminate the risks of not achieving business objectives, and, as such, offer reasonable but not absolute assurance against fraud, material misstatement and loss. The Board of Directors considers that adequate systems and controls are in place with regard to CSi's risk profile and strategy and an appropriate array of assurance mechanisms, properly resourced and skilled, has been established to avoid or minimise loss.

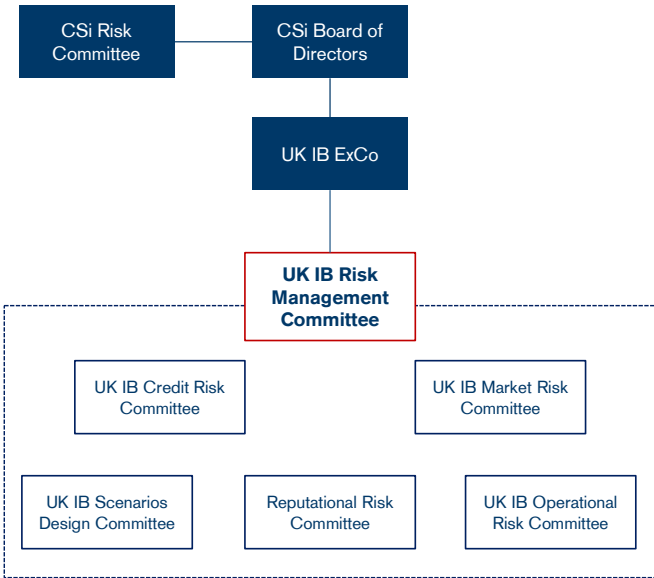
In addition, the Board of Directors has established a Board Risk Committee, as discussed below. Ordinary meetings of the Board Risk Committee are required to take place at least four times each year.

Recruitment to CSi's Board of Directors is governed by a nominations policy that is applied consistently to all subsidiaries within the CS group. At local level, this policy is implemented by a nominations committee that is required to evaluate the balance of skills, knowledge and experience of the Board of Directors by reference to the requirements of the Bank, and similarly to consider the skills, knowledge and experience of individual candidates for appointment. Consistent with the fact that the Bank is an Equal Opportunities Employer, recruitment at all levels is based on consideration of a diverse range of candidates without discrimination or targets on the basis of any protected category. Details of directorships held by Board Members are shown in Appendix 2.

Risk organisation and governance

Risks are monitored and managed as part of the risk appetite framework. CSi's risk management organisation reflects its risk profile to ensure risks are managed in a transparent and timely manner. CSi's independent risk management function is headed by CSi's Chief Risk Officer ('CRO'), who reports jointly to CSi's CEO and the CRO of the CS group.

The CRO is responsible for overseeing CSi's risk profile and for ensuring that there is an adequate independent risk management function. This responsibility is delegated from the Board of Directors, via the UK IB ExCo, to the CRO, who in turn has established a risk governance framework and supporting organisation.



- **CSi Board of Directors:** responsible to shareholders for the strategic direction, supervision and control of the entity and for defining the overall tolerance for risk;
- **Board Risk Committee:** responsible for assisting the Board of Directors in fulfilling their oversight responsibilities by providing guidance regarding risk governance and the development of the risk profile and capital adequacy, including the regular review of major risk exposures and recommending approval by the Board of overall risk appetite limits; and
- **UK IB ExCo:** this is the primary management committee of CSi and is charged with managing all aspects including strategy, culture, revenue, risk and control, costs and employees.

The Board of Directors approves the overall framework for risk appetite. The authority to establish more granular limits within the bounds of the overall risk appetite is delegated to the UK Investment Bank Risk Management Committee ('UK IB RMC'), which is chaired by CSi's CRO and comprises members of senior risk and business managers. The purpose of the UK IB RMC is to:

- ensure that proper standards for risk oversight and management are established and operational;
- make recommendations to the Board on risk appetite;
- review the ICAAP;
- define and establish risk limits for individual businesses and at the portfolio level within authorities delegated by the Board; and
- review business activity, material risk taking and risk-related control processes.

In addition to this, and aligned with the organisation structure, CSi's CRO has implemented several sub-committees of the UK IB RMC:

- **The UK Investment Bank ('UK IB') Credit Risk Committee:** chaired by CSi's Chief Credit Officer, is responsible for defining and implementing the UK IB Credit Risk Framework. It is responsible for reviewing emerging risks and assessing the impact of risk taking on the UK IB credit portfolio including counterparty, sector, and concentration. This process is supported by the Credit Risk Management ('CRM') department which is responsible for approving credit limits, monitoring and managing individual exposures, and assessing and managing the quality of credit portfolios and allowances;
- **The UK IB Market Risk Committee:** chaired by CSi's Co-Heads of Market Risk, is responsible for defining and implementing the UK IB Market Risk Framework. It is responsible for reviewing emerging risks and assessing the impact of risk taking on the UK IB market risk profile. This process is supported by the Market Risk Management department ('MRM') which is responsible for assessing and monitoring the market and liquidity risk profile and recommending corrective action where necessary;
- **The UK IB Operational Risk Committee:** chaired by CSi's Head of Operational Risk, is responsible for defining and implementing the UK IB Operational Risk Framework. It is responsible for reviewing emerging risks and assessing the impact of any issues that impact the UK IB operational risk profile. This process is supported by the Operational Risk Management ('ORM') department which is responsible for the identification, assessment, and monitoring of operational risks;
- **The UK IB Scenarios Design Working Group:** ('UK IB SDWG'), chaired by CSi's Head of Enterprise Risk, is responsible for identifying, developing and maintaining appropriate stress scenarios which are relevant for the UK entities based on material risk factors. This process is supported by the Enterprise Risk Management ('ERM') department which is responsible for covering cross-divisional and cross-functional approaches towards identifying and measuring risks as well as defining and managing risk appetite levels; and
- **The Reputational Risk Committee:** chaired by either by the CRO, the CS Group Head of Operational Risk or the Head of EMEA General Counsel, is responsible for reviewing and approving transactions that are escalated as having potential to have a negative impact on CSi's reputation. This process is supported by the Reputational Risk Management department which is responsible for the assessment and review of reputational risks on a transactional basis.

These departments form part of a matrix management structure with reporting lines into both the CSi CRO and the relevant Global Risk Head. Furthermore, these departments are supported by a global infrastructure and data process which is maintained by the Risk and Finance Data and Reporting ('RFDAR') group.

Risk appetite

Risk appetite is defined as the level of risk that CSi is prepared to accept while pursuing its business strategy and is intended to achieve the following objectives:

- articulate the risks that CSi is willing to take and constrain risk-taking activity;
- consider all appropriate risks both individually and, where necessary, in aggregate;
- communicate the acceptable level of risk for different risk types, in both financial and non-financial terms; and
- be embedded in the decision-making process, for example, within new product approvals.

The risk appetite is approved by the Board of Directors on an annual basis as part of the strategic planning process. The risk appetite includes specific principles for conduct behaviours, model risk and reputational risks and is also based on key overarching financial principles as follows:

- **capital and liquidity adequacy:** the overarching objective is to maintain regulatory capital and liquidity requirements with an appropriate management buffer held over and above minimum requirements;
- **adequate return on risk:** overarching objective to ensure that capital usage is optimised; and
- **earnings volatility:** overarching objective to manage earnings volatility within prescribed limits, which are agreed annually with Credit Suisse Group (as ultimate shareholder).

Risk limits

Based on these principles, the Board approves limits by key risk type. These limits are then used as a basis for defining a more granular framework of risk limits. The UK IB RMC and CRO are responsible for setting specific limits deemed necessary to manage the risk within individual lines of business and across counterparties as follows:

- market risk limits are based on a variety of sensitivity, portfolio and stress measures including, for example, VaR and portfolio stress loss metrics. The overall market risk limit calibration is recommended by the Co-Heads of Market Risk who then have responsibility for development and calibration of the full suite of market risk limits;
- credit risk limits are based on a variety of exposure and stress measures including, for example, counterparty, portfolio and stress metrics. The overall credit risk limit calibration is recommended by the Head of Credit Risk and is designed to control overall credit quality and mitigate concentration risks (such as single name or industry type) within the portfolio; and
- operational risk thresholds are based on a series of metrics designed to assess control effectiveness. The overall calibration is recommended by the Head of Operational Risk and is designed to identify areas of potential control weakness and drive development of programmes to reduce operational risk. These thresholds are set in both quantitative (considering historical losses and gains) and qualitative (CS group-wide statements linked to risk and control indicators) terms.

The limits define CSi's maximum risk appetite given management resources, the market environment, business strategy and financial resources available to absorb potential losses.

CSi's financial risk management objectives and policies and the exposure of CSi to market risk, credit risk, liquidity risk and currency risk are also considered in the 2014 Annual Report, Note 39 – 'Financial Instruments Risk Positions'.

Stress testing

These individual risk type limits are supplemented by an enterprise-wide stress testing programme which is designed to provide an aggregate view of CSi's financial risks. The enterprise-wide stress testing process begins with a scenario setting process, with the choice of scenario being approved by the UK IB SDWG. The scenarios are designed to be severe, but plausible, and relevant to CSi's business. The stress test process is based on both models and expert judgement. These stress test results are reported to the Board Risk Committee at each meeting and form a key input to the ICAAP.

Credit risk

Overview

For regulatory purposes, exposures to borrowers or counterparties are categorised into exposure classes according to the framework set out in the CRR.

The majority of Pillar 1 credit and counterparty risk capital requirements are calculated using the Advanced Internal Ratings Based Approach to risk weights ('AIRB'). Certain exposure classes are treated under the Standardised Approach to risk weights.

Credit exposures, RWAs and capital requirements

The tables in this section contain analyses of credit and counterparty exposures in both the Trading Book and Banking Book.

The following table contains an analysis of CSI's actual and average credit exposures, RWAs and capital requirements. Credit exposures are stated before the effects of credit risk mitigation ('CRM').

Credit exposures and RWAs by exposure classes (USD million)

As at 31 December 2014

| Credit exposures by regulatory approach: | Exposure at default (pre-CRM) | | RWAs | | Capital requirement |
|--|-------------------------------|----------------|------------------|---------------|---------------------|
| | Average for year | Year-end | Average for year | Year-end | Year-end |
| <i>Standardised Approach</i> | | | | | |
| Central governments or central banks | 1,115 | 356 | 1,041 | 861 | 69 |
| Regional governments or local authorities | 483 | 46 | 91 | 6 | 0 |
| Public sector entities | 851 | 473 | 226 | 117 | 9 |
| Multilateral development banks | 1,458 | 1,418 | 160 | 173 | 14 |
| International organisations | 26 | 53 | 0 | 0 | 0 |
| Institutions | 79,886 | 72,760 | 11,299 | 11,393 | 911 |
| Corporates | 10,808 | 10,168 | 10,117 | 10,502 | 840 |
| Claim on institutions and corporates with a short-term credit assessment | 10,072 | 9,768 | 2,247 | 2,143 | 171 |
| Other items | 53 | 5 | 53 | 5 | 0 |
| Total Standardised Approach | 104,752 | 95,047 | 25,234 | 25,200 | 2,014 |
| <i>AIRB Approach</i> | | | | | |
| Central governments and central banks | 12,061 | 12,856 | 5,744 | 6,635 | 531 |
| Institutions | 39,326 | 42,805 | 21,554 | 23,489 | 1,879 |
| Corporates | 52,558 | 58,844 | 31,355 | 33,397 | 2,672 |
| Equity | 29 | 18 | 106 | 66 | 5 |
| Items representing securitisation positions | 1,508 | 1,496 | 713 | 255 | 20 |
| Non-credit obligation assets | 602 | 568 | 602 | 568 | 45 |
| Total AIRB Approach | 106,084 | 116,587 | 60,074 | 64,410 | 5,152 |
| Total | 210,836 | 211,634 | 85,308 | 89,610 | 7,166 |

The following table contains a geographical analysis of credit exposures (before the effects of credit risk mitigation):

Credit exposures – analysed by geographical region (USD million)

| As at 31 December 2014 | | | | | | |
|--|---------------|---------------|---------------|------------------------|--------------|----------------|
| Credit exposures by regulatory approach: | UK | Other Europe | Americas | Middle East and Africa | Asia Pacific | Total |
| <i>Standardised Approach</i> | | | | | | |
| Central governments or central banks | 10 | 346 | 0 | 0 | 0 | 356 |
| Regional governments or local authorities | 0 | 46 | 0 | 0 | 0 | 46 |
| Public sector entities | 0 | 15 | 434 | 0 | 24 | 473 |
| Multilateral development banks | 6 | 396 | 473 | 42 | 501 | 1,418 |
| International organisations | 0 | 53 | 0 | 0 | 0 | 53 |
| Institutions | 46,547 | 3,882 | 18,008 | 1 | 4,322 | 72,760 |
| Corporates | 1,304 | 5,298 | 2,748 | 587 | 231 | 10,168 |
| Claim on institutions and corporates with a short-term credit assessment | 3,808 | 1,846 | 4,062 | 0 | 52 | 9,768 |
| Other items | 0 | 0 | 5 | 0 | 0 | 5 |
| Total Standardised Approach | 51,675 | 11,882 | 25,730 | 630 | 5,130 | 95,047 |
| <i>AIRB Approach</i> | | | | | | |
| Central governments and central banks | 114 | 12,030 | 129 | 356 | 227 | 12,856 |
| Institutions | 4,755 | 21,629 | 13,573 | 667 | 2,181 | 42,805 |
| Corporates | 6,193 | 15,608 | 34,656 | 1,027 | 1,360 | 58,844 |
| Equity | 0 | 18 | 0 | 0 | 0 | 18 |
| Items representing securitisation positions | 25 | 1,185 | 286 | 0 | 0 | 1,496 |
| Non-credit obligation assets | 0 | 568 | 0 | 0 | 0 | 568 |
| Total AIRB Approach | 11,087 | 51,038 | 48,644 | 2,050 | 3,768 | 116,587 |
| Total | 62,762 | 62,920 | 74,374 | 2,680 | 8,898 | 211,634 |

The following table contains an analysis of credit exposures by industry type (before the effects of credit risk mitigation). CSI has no exposures to SME counterparties.

Credit exposures – analysed by industry (USD million)

| As at 31 December 2014 | | | | |
|--|----------------|---------------|--------------------|----------------|
| Credit exposures by regulatory approach: | Financial | Commercial | Public Authorities | Total |
| <i>Standardised Approach</i> | | | | |
| Central governments or central banks | 0 | 0 | 356 | 356 |
| Regional governments or local authorities | 0 | 0 | 46 | 46 |
| Public sector entities | 454 | 19 | 0 | 473 |
| Multilateral development banks | 0 | 0 | 1,418 | 1,418 |
| International organisations | 0 | 0 | 53 | 53 |
| Institutions | 72,758 | 2 | 0 | 72,760 |
| Corporates | 7,064 | 3,104 | 0 | 10,168 |
| Claim on institutions and corporates with a short-term credit assessment | 7,549 | 2,219 | 0 | 9,768 |
| Other items | 5 | 0 | 0 | 5 |
| Total Standardised Approach | 87,830 | 5,344 | 1,873 | 95,047 |
| <i>AIRB Approach</i> | | | | |
| Central governments and central banks | 0 | 163 | 12,693 | 12,856 |
| Institutions | 40,410 | 6 | 2,389 | 42,805 |
| Corporates | 42,954 | 14,741 | 1,149 | 58,844 |
| Equity | 4 | 14 | 0 | 18 |
| Items representing securitisation positions | 1,496 | 0 | 0 | 1,496 |
| Non-credit obligation assets | 0 | 568 | 0 | 568 |
| Total AIRB Approach | 84,864 | 15,492 | 16,231 | 116,587 |
| Total | 172,694 | 20,836 | 18,104 | 211,634 |

The following table contains an analysis of credit exposures by residual maturity (before the effects of credit risk mitigation):

Credit exposures – analysed by residual maturity (USD million)

| As at 31 December 2014 | | | | |
|--|-----------------|----------------|----------------------|----------------|
| Credit exposures by regulatory approach: | Up to 12 months | 1 - 5 years | Greater than 5 years | Total |
| <i>Standardised Approach</i> | | | | |
| Central governments or central banks | 343 | 13 | 0 | 356 |
| Regional governments or local authorities | 16 | 0 | 30 | 46 |
| Public sector entities | 15 | 16 | 442 | 473 |
| Multilateral development banks | 0 | 1,028 | 390 | 1,418 |
| International organisations | 0 | 53 | 0 | 53 |
| Institutions | 10,333 | 56,587 | 5,840 | 72,760 |
| Corporates | 3,141 | 4,658 | 2,369 | 10,168 |
| Claim on institutions and corporates with a short-term credit assessment | 5,152 | 1,542 | 3,074 | 9,768 |
| Other items | 1 | 4 | 0 | 5 |
| Total Standardised Approach | 19,001 | 63,901 | 12,145 | 95,047 |
| <i>AIRB Approach</i> | | | | |
| Central governments and central banks | 1,184 | 11,185 | 487 | 12,856 |
| Institutions | 4,706 | 23,815 | 14,284 | 42,805 |
| Corporates | 21,928 | 25,954 | 10,962 | 58,844 |
| Equity | 15 | 1 | 2 | 18 |
| Items representing securitisation positions | 0 | 84 | 1,412 | 1,496 |
| Non-credit obligation assets | 568 | 0 | 0 | 568 |
| Total AIRB Approach | 28,401 | 61,039 | 27,147 | 116,587 |
| Total | 47,402 | 124,940 | 39,292 | 211,634 |

For specialised lending exposures within the corporate IRB exposure class, internal rating grades are mapped to one of five supervisory categories, associated with a specific risk weight. As at 31 December 2014, CSi had specialised lending exposures in one category only – Category 5 (default) – in the amount of USD44m, with an associated risk weight of zero.

Impaired and past due exposures, credit risk adjustments and specific and general credit risk adjustments

The majority of CSI's loan exposures are accounted for on a fair value basis and the carrying value of these loans was USD9.4bn at 31 December 2014 (2013: USD10.5bn). Other loans are accrual accounted, and the carrying value of these loans was USD3.3bn at 31 December 2014 (2013: USD4.5bn). CSI's accounting policies relating to impairment can be found in the 2014 Annual Report, Notes 2 and 3, and information on impairment losses can be found in Note 17.

The following tables analyse impaired loans and credit loss allowances and by significant industry and geographical areas:

Industry distribution of allowances and impaired loans (USD million)

As at 31 December 2014

| Industry | Specific allowances | Inherent credit loss allowances | Total allowances | Loans with specific allowances | Total impaired loans | Loans with inherent credit loss allowances |
|--------------|---------------------|---------------------------------|------------------|--------------------------------|----------------------|--|
| Financial | 0.0 | 0.2 | 0.2 | 0.0 | 0.0 | 10.4 |
| Commercial | 1.3 | 4.9 | 6.2 | 26.5 | 26.5 | 175.5 |
| Total | 1.3 | 5.1 | 6.4 | 26.5 | 26.5 | 185.9 |

Industry distribution of charges and write-offs (USD million)

2014

| Industry | Net additions charged to income statement | Gross write-offs |
|--------------|---|------------------|
| Commercial | 1.3 | 0.0 |
| Total | 1.3 | 0.0 |

Geographic distribution of allowances and impaired loans (USD million)

As at 31 December 2014

| | Specific allowances | Inherent credit loss allowances | Total allowances | Loans with specific allowances | Total impaired loans | Loans with inherent credit loss allowances |
|---------------------|---------------------|---------------------------------|------------------|--------------------------------|----------------------|--|
| UK | 0.0 | 0.1 | 0.1 | 0.0 | 0.0 | 19.0 |
| EMEA (excluding UK) | 0.0 | 4.4 | 4.4 | 0.0 | 0.0 | 151.5 |
| Americas | 1.3 | 0.6 | 1.9 | 26.5 | 26.5 | 15.4 |
| Total | 1.3 | 5.1 | 6.4 | 26.5 | 26.5 | 185.9 |

Changes in allowances for impaired loans (USD million)

2014

| | Specific allowances | Inherent credit loss allowances | Total allowances |
|--|---------------------|---------------------------------|------------------|
| Balance at beginning of period | 0.0 | 10.7 | 10.7 |
| Net additions / (releases) charged to income statement | 1.3 | (5.6) | (4.3) |
| Balance at end of period | 1.3 | 5.1 | 6.4 |

Counterparty credit risk

Counterparty credit risk arises from OTC and exchange-traded derivatives, repurchase agreements, securities lending and borrowing and other similar products and activities. The related credit risk exposures depend on the value of underlying market factors (eg. interest rates and foreign exchange rates), which can be volatile and uncertain in nature. CSi enters into derivative contracts in the normal course of business for market making, positioning and arbitrage purposes, as well as for risk management needs, including mitigation of interest rate, foreign currency, credit and other risks.

Counterparty credit exposure by regulatory approach

The CRR framework permits regulated firms to use the Internal Model Method ('IMM') and the supervisory non-model approaches to compute their expected exposure to counterparty credit exposure ('exposure at default' ('EAD')). Regulated firms wishing to use IMM models must obtain regulatory approval to do so.

As at 31 December 2014, CSi calculates EAD for derivatives under both IMM and CCRMTM. During the period, CSi has been transitioning from an EAD calculation based on both IMM and CCRMTM to CCRMTM only. The IMM and CCRMTM calculations take into account potential future credit exposure ('PFCE') and thus may generate exposures greater than the derivative net replacement values.

Under the IMM approach, the EAD is calculated by multiplying the effective expected positive exposure with a multiplier 'alpha'. Alpha is set to a default value of 1.4.

The following table analyses derivative exposures by regulatory method. CCRMTM exposures are not measured using a modelled approach but are subject to netting and collateral offsets and require adjustment for PFCE.

Net derivatives credit exposure (USD million)

| As at 31 December 2014 | | | | | |
|---------------------------|---|------------------|--------------------------------|-----------------|---------------------------------|
| | Gross positive fair value of contracts ⁽ⁱ⁾ | Netting benefits | Netted current credit exposure | Collateral held | Net derivatives credit exposure |
| CCR Mark to Market Method | 490,893 | (393,210) | 97,683 | (9,203) | 88,480 |
| Internal Model Method | | | | | 41,498 |
| Total | | | | | 129,978 |

(i) including Gross PFCE

The regulatory exposure for secured financing transactions is calculated using the Master Netting Agreement Method with own estimates of volatility.

Credit derivative contracts – notional exposure

The following table analyses the notional values of credit derivatives by both own credit portfolio and intermediation activities. Own credit portfolio positions consist of trades used for hedging and credit management whereas intermediation refers to all credit derivative market making activity.

Credit derivatives – notional values (USD million)

| As at 31 December 2014 | | | |
|---|-------------------|-----------------|------------------|
| | Protection bought | Protection sold | Total |
| <i>Own credit portfolio</i> | | | |
| Credit default swaps | 13,864 | 2,984 | 16,848 |
| Other | 1,642 | 0 | 1,642 |
| Total own credit portfolio | 15,506 | 2,984 | 18,490 |
| <i>Intermediation activity</i> | | | |
| Credit default swaps | 635,228 | 624,805 | 1,260,033 |
| Other | 69,625 | 29,376 | 99,001 |
| Total intermediation activity | 704,853 | 654,181 | 1,359,034 |
| Total credit derivative notional value | 720,359 | 657,165 | 1,377,524 |

Effect of a credit rating downgrade

On a daily basis, the level of incremental collateral that would be required by derivative counterparties in the event of a CS group ratings downgrade is monitored. Collateral triggers are maintained by the Collateral Management department and vary by counterparty.

The impact of downgrades in the CS group's long-term debt ratings are considered in the stress assumptions used to determine the liquidity and funding profile of CSi. CSi holds a liquidity pool made up of 'high quality liquid assets' ('HQLA') to meet any additional collateral calls as a result of a downgrade. The assessment takes into consideration a two-notch downgrade in the credit rating of Credit Suisse AG ('CS AG').

Credit limits, approval and reviews

A primary responsibility of CRM is to monitor counterparty exposure and the creditworthiness of a counterparty, both at the initiation of the relationship and on an ongoing basis. Part of the review and approval process is an analysis and discussion to understand the motivation of the client and to identify the directional nature of the trading in which the client is engaged. Credit limits are agreed in line with CSi's risk appetite framework, taking into account the strategy of the counterparty, the level of disclosure of financial information and the amount of risk mitigation that is present in the trading relationship (eg. level of collateral). All credit exposure is approved, either by approval of an individual transaction or facility (eg. lending facilities), or under a system of credit limits (eg. OTC derivatives). Credit exposure is monitored daily to ensure it does not exceed the approved credit limit. These credit limits are set either on a potential exposure basis or on a notional exposure basis. Potential exposure means the possible future value that would be lost upon default of the counterparty on a particular future date, and is taken as a high percentile of a distribution of possible exposures computed by CSi's internal exposure models. Secondary debt inventory positions are subject to separate limits that are set at the issuer level.

A system of limits is also established to address concentration risk in the portfolio, including country limits, industry limits and limits for certain products. In addition, credit risk concentration is regularly supervised by credit and risk management committees, taking current market conditions and trend analysis into consideration. A credit quality review process provides an early identification of possible changes in the creditworthiness of clients and includes regular asset and collateral quality reviews, business and financial statement analysis and relevant economic and industry studies. Regularly updated watch lists and review meetings are used for the identification of counterparties where adverse changes in creditworthiness could occur.

Counterparty credit limits are governed by the Credit Risk Appetite Framework, which establishes a set of ratings-based appetite limits for specific counterparty classes. Appetite limits have been calibrated to the Bank's capital through a limit-utilisation simulation, which demonstrates that with full limit utilisation, and under a severe flight-to-quality scenario, utilisation remains within the relevant limits. CRM does not explicitly manage internal capital at the level of individual counterparties. However, all counterparty limits are managed within the Credit Risk Appetite Framework.

Credit risk reporting and measurement

The Credit Risk Reporting group is responsible for the production of regular and ad-hoc reporting of credit and counterparty risk, country, industry and scenario exposures, in support of internal clients such as the senior management of the Bank, CRO management, and various risk management committees, as well as external stakeholders such as regulators.

CSi's credit exposures are captured in its 'Insight' system, where exposures are calculated from various inputs including trade data, mark-to-market valuations, economic sensitivities, legal documentation and jurisdiction, collateral and other forms of risk mitigation. The Credit Analytics group is responsible for the development and maintenance of exposure calculation methodologies.

Credit hedges and risk mitigation

Counterparty credit risk may be reduced through various forms of mitigation, including: credit default swaps, third-party guarantees, credit insurance, letters of credit and other written assurances (unfunded credit risk mitigation); and collateral or fully-collateralised derivatives (forms of funded protection).

For risk management purposes, the use of unfunded credit risk mitigation is subject to a risk transference guideline which sets out the roles and responsibilities of CRM, the Legal and Compliance Department, and the Regulatory Reporting function in ensuring risk mitigation is effective and is given the correct capital treatment. In circumstances where the borrower is heavily reliant on the protection provider in order to secure the credit, CRM will require the protection provider to be internally-rated higher than the borrower. The main types of guarantors are investment-grade rated insurers, mainly A-rated and above, that are active providers of risk mitigation to the CS group on a global basis. The providers of credit default swap ('CDS') contracts for risk mitigation are mainly investment-grade rated international banks. The portfolio of counterparty banks is very diverse, reflecting CSi's international book, and the contracts are generally covered by collateral under an ISDA master agreement. On a quarterly basis, the residual risk associated with risk transference and concentration to specific protection providers is considered in a Pillar 2A ICAAP assessment. The amount of credit risk arising from the concentration to protection provider is not considered to be material.

Collection of financial collateral is a key risk management tool for securities financing transactions, derivatives, FX, other OTC products and share-backed financing. Subject to legally enforceable agreements, collateral may be accepted in many different currencies and jurisdictions, and the collateral process creates potentially significant legal, tax, credit, regulatory and operational issues, in addition to the liquidity issues involved in running a large portfolio of collateral assets and liabilities. CSi's strategy with respect to collateral is subject to a robust collateral policy, which details standards of acceptable collateral (including collateral

type, liquidity, quality and jurisdiction), valuation frequency, haircuts and agreement type (most agreements are two-way arrangements, meaning CSi may post as well as receive collateral). Additionally, thresholds are established for the management of collateral concentrations to ensure there is no significant build-up of specific collateral types on a portfolio basis.

However, concentration with respect to cash collateral in major currencies is deemed prudent from a risk management perspective. Similarly, high-quality liquid sovereign bonds are preferred over other less liquid or less stable collateral types. The majority of CSi's collateral portfolio is made up of cash and liquid securities which are subject to daily valuations. The collateral portfolio is reviewed on a regular basis by the CRM Collateral Concentration and Liquidity Committee, which is responsible for determining the necessary actions in response to any concentration threshold breaches. Additionally, this committee reviews issues of issuer liquidity and is responsible for reviewing and notifying CRM Credit Analytics if any collateral classified as 'illiquid' requires consideration for enhanced margin period of risk ('MPoR') treatment.

The policies and processes for collateral valuation and management are driven by a legal document framework that is bilaterally agreed with clients, and a collateral management risk framework enforcing transparency through self-assessment and management reporting. For portfolios collateralised by marketable securities, the valuation is performed daily. Exceptions are governed by the calculation frequency described in the legal documentation. The mark-to-market prices used for valuing collateral are a combination of internally-modelled and market prices sourced from trading platforms and service providers, where appropriate. The management of collateral is standardised and centralised to ensure complete coverage of traded products.

The following table analyses the amount of regulatory exposure covered by unfunded and funded credit risk mitigation, reported by risk weight methodology and exposure class:

| Analysis of credit exposures covered by unfunded and funded credit protection (USD million) | | | | |
|--|----------------------------|--------------------|--------------|--------------------------|
| As at 31 December 2014 | | | | |
| Credit exposures by regulatory approach: | Unfunded credit protection | | | Funded credit protection |
| | Guarantees | Credit Derivatives | Total | Financial Collateral |
| <i>Standardised Approach</i> | | | | |
| Corporates | 339 | 0 | 339 | 514 |
| Claim on institutions and corporates with a short-term credit assessment | 0 | 15 | 15 | 0 |
| Total Standardised Approach | 339 | 15 | 354 | 514 |
| <i>AIRB Approach</i> | | | | |
| Central governments and central banks | 821 | 101 | 922 | 250 |
| Institutions | 378 | 5 | 383 | 125 |
| Corporates | 1,003 | 120 | 1,123 | 2,083 |
| Total AIRB Approach | 2,202 | 226 | 2,428 | 2,458 |
| Total | 2,541 | 241 | 2,782 | 2,972 |

Netting

Credit risk mitigation processes under the AIRB and Standardised Approaches includes on- and off-balance sheet netting and utilising eligible collateral, as defined in the CRR. On-balance sheet netting is applied in a small number of cases, all of which relate to loans and deposits between CSi and various companies within the CS group.

CSi transacts bilateral OTC derivatives mainly under ISDA master agreements. These agreements provide for the net settlement of all transactions under the agreement through a single payment in the event of default or termination.

Reverse repurchase and repurchase agreements are generally covered by global master repurchase agreements with netting terms similar to ISDA master agreements. In addition, securities lending and borrowing transactions are generally executed under global master securities lending agreements, with netting terms also similar to ISDA master agreements. In certain situations, for example in the event of default, all contracts under the agreements are terminated and are settled net in one single payment.

Wrong-way exposures

Correlation risk arises when CSi enters into a financial transaction where market rates are correlated to the financial rating of the counterparty. In a wrong-way trading situation, the exposure to the counterparty increases while the counterparty's financial condition and its ability to pay on the transaction diminishes. Capturing wrong-way risk ('WWR') requires the establishment of basic assumptions regarding correlations for a given trading product. The management of WWR is integrated within CSi's overall credit risk assessment approach and is subject to a framework for identification and treatment of WWR, which includes governance, processes, roles and responsibilities, methodology, scenarios, reporting, review and escalation.

A conservative treatment for the purpose of calculating exposure profiles is applied to material trades with WWR features. The WWR framework applies to OTC, securities financing transactions and centrally cleared trades.

For those instances where a material WWR presence is detected, limit utilisation and default capital are accordingly adjusted. The adjustments are performed for the cases of WWR related to legal connection or high correlation, and cover both the trade and collateral portfolios.

Regular reporting of WWR at both the individual trade and portfolio level allows WWR to be identified and corrective action taken in the case of heightened concern by CRM. Reporting occurs at various levels:

- **counterparty exposure reporting:** transactions that contain WWR are subject to a conservative adjustment as part of the daily exposure calculation process, as defined in the Credit Analytics exposure methodology document. This ensures that correlated transactions utilise more credit limit;
- **country exposure reporting:** exposure is reported against country limits established for emerging market countries. Exposures that exhibit wrong-way characteristics are given higher risk weighting versus non-correlated transactions, resulting in a greater amount of country limit usage for these trades; and
- **scenario risk reporting:** in order to identify areas of potential WWR within the portfolio, a set of defined scenarios are run monthly by RFDAR. The scenarios are determined by CRM and involve combining existing scenario drivers with specific industries to determine where portfolios are sensitive to these stressed parameters eg. construction companies and the adverse impact of rising interest rates.

Scenario analysis is also produced for hedge funds which are exposed to particular risk sensitivities and also may have collateral concentrations due to a specific direction and strategy. The Front Office is responsible as a first line of defence for identifying and escalating trades that could potentially give rise to WWR. Any material WWR at portfolio or trade level would be escalated to senior CRM executives and risk committees.

Internal ratings based approach

The Basel Framework permits banks a choice between two broad methodologies in calculating their capital requirements for credit risk by exposure class, the Internal Ratings Based ('IRB') Approach (within which there are two variants, Foundation and Advanced) or the Standardised Approach, and CSi has received approval from the PRA to use the Advanced IRB ('AIRB') Approach.

Under the AIRB Approach, risk weights are determined using internal models and risk parameters, whereas under the Standardised Approach, the risk weights are based on regulatory prescribed parameters. Credit risk models are reviewed and updated on an ongoing basis, reflecting more recent data, changes to methodologies, and updated regulatory requirements. A number of models were redeveloped in 2013 and approved by the PRA in 2014. In addition, certain portfolios were moved from the AIRB Approach to the Standardised Approach.

Currently, the AIRB Approach is used for the majority of exposures whereby internal estimates for probability of default ('PD') and loss given default ('LGD') are used when calculating credit risk capital requirements. As prescribed in its AIRB permission, CSi calculates the credit risk capital requirement for equity exposures using the Simple Risk Weight Approach.

Portfolios subject to PD and LGD approach

The following tables contain, for principal exposure classes, an analysis by grade of exposures, risk weights, credit conversion factors ('CCFs') and loan exposures (stated before the effects of CRM):

IRB obligor grade disclosure – central governments and central banks

| 31 December 2014 | | | | | | |
|------------------|---------------------------------|-----------------------------------|---|---------------------------|------------------------------------|--------------------------------------|
| | Total exposure (USD million) | Exposure-weighted average LGD (%) | Exposure-weighted average risk weight (%) | Exposure-weighted CCF (%) | Outstanding loans (USD million) | Undrawn commitments (USD million) |
| AAA | 480 | 52.4 | 19.7 | 100.0 | 0 | 0 |
| AA | 754 | 60.8 | 21.4 | 100.0 | 0 | 0 |
| A | 59 | 100.0 | 30.1 | 100.0 | 0 | 0 |
| BBB | 9,482 | 53.0 | 57.0 | 100.0 | 1 | 4 |
| BB | 1,691 | 80.6 | 185.7 | 100.0 | 1,368 | 0 |
| B or lower | 390 | 96.1 | 366.3 | 100.0 | 356 | 0 |
| Total | 12,856 | 58.6 | 79.7 | 100.0 | 1,725 | 4 |

IRB obligor grade disclosure – institutions

| 31 December 2014 | | | | | | |
|------------------|---------------------------------|-----------------------------------|---|---------------------------|------------------------------------|--------------------------------------|
| | Total exposure (USD million) | Exposure-weighted average LGD (%) | Exposure-weighted average risk weight (%) | Exposure-weighted CCF (%) | Outstanding loans (USD million) | Undrawn commitments (USD million) |
| AAA | 997 | 49.7 | 27.5 | 100.0 | 0 | 0 |
| AA | 8,647 | 54.2 | 37.0 | 98.9 | 0 | 284 |
| A | 25,807 | 56.6 | 49.3 | 100.0 | 0 | 17 |
| BBB | 5,969 | 58.3 | 94.6 | 100.0 | 0 | 0 |
| BB | 477 | 65.1 | 200.2 | 99.9 | 7 | 2 |
| B or lower | 908 | 94.7 | 465.5 | 100.0 | 793 | 0 |
| Total | 42,805 | 57.1 | 63.1 | 99.8 | 800 | 303 |

IRB obligor grade disclosure – corporates

| 31 December 2014 | | | | | | |
|-------------------------------------|---------------------------------|-----------------------------------|---|---------------------------|------------------------------------|--------------------------------------|
| | Total exposure (USD million) | Exposure-weighted average LGD (%) | Exposure-weighted average risk weight (%) | Exposure-weighted CCF (%) | Outstanding loans (USD million) | Undrawn commitments (USD million) |
| AAA | 3,989 | 41.3 | 13.0 | 84.2 | 62 | 1,797 |
| AA | 15,146 | 48.4 | 23.2 | 90.1 | 73 | 4,291 |
| A | 12,472 | 49.8 | 34.6 | 93.0 | 586 | 2,479 |
| BBB | 14,858 | 52.9 | 68.7 | 95.5 | 2,084 | 1,911 |
| BB | 8,349 | 57.4 | 153.3 | 98.7 | 884 | 322 |
| B or lower | 3,874 | 46.9 | 186.9 | 93.5 | 943 | 718 |
| Default (net of specific provision) | 156 | 67.6 | 71.8 | 100.0 | 86 | 0 |
| Total | 58,844 | 50.6 | 65.8 | 93.1 | 4,718 | 11,518 |

The following table sets out a geographical breakdown of LGD and PD:

| Geographical breakdown of LGD and PD (%) | | | |
|---|---------------------------------------|--------------|-------------|
| 31 December 2014 | | | |
| | Central governments and central banks | Institutions | Corporates |
| <i>Exposure-weighted average LGD (%)</i> | | | |
| UK | 52.0 | 55.3 | 53.8 |
| Other Europe | 56.8 | 55.4 | 50.6 |
| Americas | 59.1 | 57.1 | 48.1 |
| Middle East and Africa | 100.0 | 100.0 | 100.0 |
| Asia Pacific | 89.7 | 65.5 | 63.3 |
| Exposure-weighted average LGD (%) | 58.6 | 57.1 | 50.6 |
| <i>Exposure-weighted average PD (%)</i> | | | |
| UK | 0.0 | 0.1 | 0.3 |
| Other Europe | 0.5 | 0.2 | 1.0 |
| Americas | 0.1 | 0.2 | 0.7 |
| Middle East and Africa | 5.6 | 7.8 | 1.1 |
| Asia Pacific | 0.0 | 0.1 | 7.8 |
| Exposure-weighted average PD (%) | 0.6 | 0.3 | 0.9 |

Rating models

The majority of the credit rating models used by CSI are developed internally by Credit Analytics, a specialised unit within CRM. These models are independently validated by Model Risk Management prior to use in the regulatory capital calculation and thereafter on a regular basis (see below). CSI also uses models purchased from recognised data and model providers (eg. credit rating agencies). These models are owned by Credit Analytics and are validated internally and follow the same governance process as models developed internally.

All new or material changes to rating models are subject to a robust governance process. After development and validation of a rating model or model change, the model is reviewed by a number of committees where model developers, validators and users of the models consider the technical and regulatory aspects of the model. The relevant committees consider the information provided and decide to either approve or reject the model or model change.

Model development

The techniques to develop models are carefully selected by Credit Analytics to meet industry standards in the banking industry as well as regulatory requirements. The models are developed to exhibit 'through-the-cycle' characteristics, reflecting a probability of default in a 12-month period across the credit cycle.

All models have clearly defined model owners who have primary responsibility for development, enhancement, review, maintenance and documentation. The models are required to pass statistical performance tests, where feasible, followed by usability tests by designated CRM experts to proceed to formal approval and implementation. The development process of a new model is documented and foresees a separate schedule for model updates.

The level of calibration of the models is based on a range of inputs, including internal and external benchmarks where available. Additionally, the calibration process ensures that the estimated calibration level accounts for variations of default rates through the economic cycle and that the underlying data contains a representative mix of economic states. Conservatism is incorporated in the model development process to compensate for any known or suspected limitations and uncertainties.

Model validation

Model validation within CSI is performed by an independent function subject to clear and objective internal standards as outlined in the validation policy. This ensures a consistent and meaningful approach for the validation of models across all areas within CSI and over time. All models whose outputs fall into the scope of the Basel internal model framework are subject to regular independent model validation. Where used, externally developed models are subject to the same governance and validation standards as internal models.

Newly-developed models in scope for the Basel internal model framework must be validated and approved before 'go-live'; a similar process is followed for changes to an existing model. Existing models are subject to a regular review process which requires each model to be periodically revalidated and its performance to be monitored at least annually. Each validation review is a comprehensive quantitative and qualitative assessment aiming:

- to confirm that the model remains conceptually sound and the model design is suitable for its intended purpose;
- to verify that model assumptions are still supported and that limitations are known and mitigated;

- to confirm that model outputs are in line with realised outcomes;
- to establish whether the model is accepted by the users and is used as intended with appropriate data governance;
- to check whether a model is implemented correctly; and
- to ensure that the model is sufficiently transparent and is well documented.

To meet these goals, models are validated against a series of quantitative and qualitative criteria, and each validation is reviewed by the model governing committees. Quantitative analyses include a review of model performance (comparison of model output against realised outcome), calibration accuracy against appropriate time series, assessment of a model's ability to rank order risk and performance against available benchmarks. Qualitative assessment includes a review of the appropriateness of the key model assumptions, the identification of the model limitations and their mitigation, and further review to ensure appropriate model use. The modelling approach is reassessed in light of developments in the academic literature and industry practice.

Results and conclusions are presented to senior risk management; shortcomings and required improvements identified by an independent validation process must be remediated within an agreed deadline.

Stress testing of parameters

The potential biases in PD estimates in unusual market conditions are accounted for by the use of long-run average estimates. CSi additionally uses stress testing when back-testing PD models. When pre-defined thresholds are breached during back-testing, a review of the calibration level is undertaken. For LGD and Credit Conversion Factor ('CCF'), calibration stress testing is applied in defining downturn LGD or CCF values, reflecting potentially increased losses during stressed periods.

Descriptions of the rating processes

CRM policy requires that all credit-bearing transactions are approved by CRM prior to trading. Generally, this approval takes the form of a credit analysis of the counterparty, which includes the assignment of a credit rating. In some cases CRM approval may take the form of a transaction approval, which may include an indicative rating or no rating. However, such approvals may only be given for single transactions with a tenor of 3 months or less, and with credit exposure of USD2m or less. At the time of initial credit approval and review, relevant quantitative data (such as financial statements and financial projections) and qualitative factors relating to the counterparty are used by CRM in the models and result in the assignment of a credit rating or PD, which measures the counterparty's risk of default over a one-year period.

Counterparty and transaction rating process

Where rating models are used, the models are an integral part of the rating process, and the outputs from the models are complemented with other relevant information from credit officers via a model-override framework. CSi has a PD model, which includes the following types of exposure: Banking Book bonds, commercial lending, exchange-traded derivatives, OTC derivatives, secured financing, open trades, and uncollateralised loans. PDs are estimated through reference to an external database, which contains the rating history of issuers over 30 years to the present. An annual default rate is calculated for each rating category, with default rates forming the basis of the PD calculation. For higher quality ratings, where there is relatively little default experience on which to base estimates, a low default portfolio ('LDP') estimator is used. All PDs are floored at 0.03% for all exposure classes with the exception of central governments and central banks, where no floor applies. The overrides by credit officers are intended to incorporate information not captured by the approved counterparty rating models. In addition to the information captured by the rating models, credit officers make use of peer analysis, industry comparisons, external ratings and research and the judgment of credit experts to support their fundamental credit analysis and determine model inputs. This analysis emphasises a forward-looking approach, concentrating on economic trends and financial fundamentals. Where rating models are not used, the assignment of credit ratings is based on a well-established expert judgment based process which captures key factors specific to the type of counterparty.

The exposures in scope of CSi's LGD model are the same as those in the PD model. The main sources of information for LGD estimation purposes are data on experienced losses and recoveries. The CS group participates in data-pooling in which lending institutions contribute historical information on defaulted loans. LGDs are discounted and therefore reflect economic losses. They also include recovery cost and downturn effects. LGD estimates are annually back-tested against internal experience.

Exposure at default ('EAD') for loan products is calculated following the CCF approach. In particular, the scope of the CCF model is irrevocable commitments under regular loans. Under this approach, a scalar CCF is used to convert an undrawn but committed amount into a loan equivalent. Specifically, EAD is modelled for each facility as the sum of the drawn exposure at reference date plus a percentage (CCF) of the undrawn portion of the commitment. The CCF estimate is obtained using historical information on realised CCFs. This type of calculation requires information on exposures for defaulted counterparties both at default and at a given date prior to default (ie. 12 months prior to default). This information is sourced from CSi's default and loss database. CCFs include downturn and conservative add-ons. CCF estimates are annually back-tested against recent internal experience.

For PD, LGD and CCF parameters, there are no deviations from the Basel definition of default and all are applied in the same way for central banks and central governments, institutions and corporates.

CRM has established guidelines for the analysis and rating of all significant counterparty types. Analysis guidelines include the following requirements for specific IRB exposure classes:

- **Central governments and central banks:** the analysis of central governments and central banks must consider the connection to the sovereign. The legal enforceability, economic structure and level of development can vary vastly from one country to another, in addition to other factors that can drive the credit risk of an individual sovereign counterparty. Credit analysis includes an assessment of connection to the sovereign (for central banks), the legal basis on which the counterparty is established, the level of sovereign support (implicit or explicit), and a discussion of economic factors, including revenue generation (both current and future), the ability to collect additional revenue, current and future financial liabilities, access to capital markets, and quality of governance and administration. Analysis should also include a review of the current credit portfolio, including a summary of risk mitigation used to reduce credit exposure.
- **Institutions:** analysis of institutions is founded on a review of capital adequacy, asset quality, management, earnings, liquidity and funding. Analysis should also consider the counterparty's risk management (eg. credit, market, interest rate and operational risk), the counterparty's industry and franchise, and its operating environment, including regulatory environment. The credit review should include both quantitative and qualitative factors. The review should cover reported financials, ratios, and financial trends both in relation to historical performance and relative to peers. Peer analysis provides context for the analysis and is required in all reviews unless suitable peers are unavailable. Banks and bank holding companies are generally reviewed at the consolidated entity level, as well as at the legal entity level with which CSi is trading. This approach helps to uncover any particularly strong or weak entities within a group. To the extent that external ratings and research exist (rating agency and/or fixed income and equity), these should be reflected in the assessment if relevant. The analysis should also encompass relevant media information. As part of the counterparty review, CRM is responsible for classifying whether certain institutions are 'regulated' per specific regulatory definitions and, if so, for capturing the financial institution's group asset value.
- **Corporates:** analysis of corporates includes an overview of the company including main business segments, sources of revenue, and financial sponsor ownership. Corporate credit analysis is a function of the industry in which a company operates. Therefore industry and peer analysis is to be included in the review; if the counterparty competes in a global industry, global competitors may be the most appropriate. The comparisons should include credit ratings as well as financial metrics appropriate for the industry. Analysis must also include an assessment of specific financial factors, including profitability, cash flow adequacy, capital structure (leverage) and liquidity. As a minimum, review and peer analyses must include the following ratios: debt to earnings before interest, taxation, depreciation and amortisation ('EBITDA'), senior debt to EBITDA (if applicable) and net debt to EBITDA; interest coverage based on industry; and debt to capitalisation or debt to assets. Finally, where CSi extends loan facilities containing financial covenants, the review must include an analysis of those covenants.

For structured and asset finance deals, the approach is more quantitative. The focus is on the performance of the underlying assets which represent the collateral of the deal. The ultimate rating is dependent upon the expected performance of the underlying assets and the level of credit enhancement of the specific transaction. Additionally, a review of the originator and/or servicer is performed. External ratings and research (rating agency and/or fixed income and equity), where available, are incorporated into the rating justification, as is any available market information (eg. bond spreads, equity performance).

Transaction ratings are based on the analysis and evaluation of both quantitative and qualitative factors. The specific factors analysed include seniority, industry and collateral. The analysis emphasises a forward-looking approach.

Use of internal ratings

Internal ratings play an essential role in the decision-making and the credit approval processes. CSi's internal counterparty ratings system has a 22-grade ratings scale. Ratings are reviewed regularly (at least annually), and consideration is given to external credit ratings during the review process. The portfolio credit quality is set in terms of the proportion of investment and non-investment grade exposures. Investment or non-investment grade is determined by the internal rating assigned to a counterparty.

Internal counterparty ratings (and associated PDs), transaction ratings (and associated LGDs) and CCFs for loan commitments are inputs to RWA calculations. Model outputs are the basis for risk-adjusted pricing or assignment of credit competency levels.

The internal ratings are also integrated into CSi's risk management reporting infrastructure and are reviewed in senior risk management committees. These committees include the UK Credit Risk Appetite Governance Committee and the UK IB RMC.

To ensure ratings are assigned on a consistent basis, the Global Risk Review function ('GRR'), which is an independent credit risk review team, performs periodic portfolio reviews which cover, inter alia:

- accuracy and consistency of assigned counterparty/transaction ratings;
- transparency of rating justifications (both the counterparty rating and transaction rating);
- quality of the underlying credit analysis and credit process; and
- adherence to CSi and CS group policies, guidelines, procedures, and documentation checklists.

The GRR function is an independent control function within CRM which reports to the Head of Global Credit Control.

Regulatory expected loss versus actual loss

Regulatory expected loss is a measure based on Pillar 1 metrics which is an input to the capital adequacy calculation. Regulatory expected loss can be seen as an expectation of average future loss as derived from IRB models, and is not a prediction of future impairment. For non-defaulted assets, regulatory expected loss is calculated using PD and downturn estimates of LGD and EAD.

For the calculation of regulatory expected loss for defaulted assets, PD is 100% and LGD is based on an estimate of likely recovery levels for each asset.

Actual loss comprises net specific impairment losses during the year for loans held at amortised cost, loans accounted for at fair value and derivatives. The actual value charges provide an equivalent impairment measure for both fair value loans and counterparty derivative exposures similar to loans held at amortised cost (excluding any realised credit default swap gains). The actual value charges may not necessarily be the same as the fair value movements recorded through the income statement.

Actual loss can also include charges against assets that were originated during the year and were therefore outside the scope of the regulatory expected loss calculated at the beginning of the year. Actual loss does not include the effects on the impairment balance of amounts written off during the year.

The following table presents the actual loss by exposure class. The actual outcome was a result of low default rates and high market liquidity during the year.

Analysis of expected loss versus actual loss for AIRB exposures (USD million)

| 2014 | | |
|---------------------------------------|---|-------------|
| <i>IRB exposure class</i> | Expected loss (beginning of year) | Actual loss |
| Central governments and central banks | 17 | 0 |
| Institutions | 23 | 0 |
| Corporates | 133 | 4 |
| Total loss | 173 | 4 |

Credit model performance – estimated versus actual PD, LGD and CCF

The following table presents the forecast and actual PD, LGD and CCF for exposures under the AIRB approach. Estimated values of PD, LGD and CCF reflect probable long-run average values, allowing for possible good and bad outcomes in different years. As they represent long-run averages, the PD, LGD and CCF values shown below are not intended to predict outcomes in any particular year, and cannot be regarded as predictions of the corresponding actual reported results.

Estimated PD, LGD and CCF are taken from each model and then mapped to the regulatory exposure class. In the table below, the comparison between actual and estimated parameters is derived from the latest available internal multi-year model development and calibration data. Some of these values (marked with * or **) should be interpreted cautiously as they are based on relatively few observations. Disclosed values are not directly comparable to previous years due to the extension of the covered period.

Analysis of expected credit model performance versus actual results

| | PD of total portfolio (%) | | LGD of defaulted assets (%) | | CCF of defaulted assets (%) | |
|---------------------------------------|---------------------------|--------|-----------------------------|--------|-----------------------------|--------|
| | Estimated | Actual | Estimated | Actual | Estimated | Actual |
| Central governments and central banks | **0.77 | **0.67 | *52 | *34 | - | - |
| Institutions | 0.80 | 0.36 | *78 | *5 | *65 | *0 |
| Corporates | 1.73 | 0.74 | 64 | 32 | 65 | 53 |

* Values based on five or fewer observations

** Values based on 60 or fewer observations per year

Equity type exposures in the Banking Book

The classification of equity type exposures into Trading Book and Banking Book is made for regulatory reporting purposes. The Banking Book includes all items that are not classified in the Trading Book, for example, on the basis that there is no trading intent or on the basis of valuation approach or frequency.

For equity type exposures in the Banking Book, risk weights are determined using the IRB Simple Risk Weight Approach, which differentiates by equity sub-asset types (qualifying private equity, listed equity and all other equity positions). The significant majority of CSi's Banking Book equity exposures are in the Fund-Linked Product ('FLP') business area. These instruments are fair valued for accounting purposes, but fall within the regulatory Banking Book category as valuations are not available sufficiently frequently to meet the standards required for Trading Book eligibility. In the context of business objectives and trading activity, the Banking Book positions are indistinguishable from FLP instruments that fall within the regulatory Trading Book category, and the positions are actively traded and risk-managed. The fair value of equity-type securities in the Banking Book was USD17.8m as at 31 December 2014 (2013: USD46.2m).

No further disclosure is made concerning cumulative realised gains or losses from sales or liquidations in the period and total latent revaluation gains or losses on the basis of materiality.

Standardised approach to risk weights

Under the Standardised Approach to risk weights, ratings published by External Credit Assessment Institutions ('ECAIs') are mapped to Credit Quality Steps ('CQS') according to mapping tables laid down by the European Banking Authority ('EBA'). The CQS value is then mapped to a risk weight percentage.

The ECAIs used by CSi are Standard & Poor's and Moody's.

Credit quality steps and corresponding risk weights under the Standardised Approach

| Credit quality step | Credit rating agency | | | Risk weights (%) | | |
|---------------------|----------------------|----------------|----------------|--------------------------------------|-----------|---|
| | Standard and Poor's | Moody's | Fitch | Central government and central banks | Corporate | Institutions greater than 3 months maturity |
| 1 | AAA to AA- | Aaa to Aa3 | AAA to AA- | 0 | 20 | 20 |
| 2 | A+ to A- | A1 to A3 | A+ to A- | 20 | 50 | 50 |
| 3 | BBB+ to BBB- | Baa1 to Baa3 | BBB+ to BBB- | 50 | 100 | 50 |
| 4 | BB+ to BB- | Ba1 to Ba3 | BB+ to BB- | 100 | 100 | 100 |
| 5 | B+ to B- | B1 to B3 | B+ to B- | 100 | 150 | 100 |
| 6 | CCC+ and below | Caa1 and below | CCC+ and below | 150 | 150 | 150 |

The next tables analyse credit exposures treated under the Standardised Approach according to CQS and exposure class, before and after credit risk mitigation ('CRM'):

Credit quality step analysis of pre-CRM exposure and capital deductions under the Standardised Approach (USD million)

As at 31 December 2014

| <i>Exposure class</i> | Credit quality step | | | | | | Uniform regulatory treatment | Total | Deduction from capital resources |
|--|---------------------|---------------|--------------|------------|------------|----------|------------------------------|---------------|----------------------------------|
| | 1 | 2 | 3 | 4 | 5 | 6 | | | |
| Central governments or central banks | 10 | 0 | 0 | 0 | 0 | 0 | 346 | 356 | 0 |
| Regional governments or local authorities | 30 | 0 | 0 | 0 | 0 | 0 | 16 | 46 | 0 |
| Public sector entities | 406 | 60 | 0 | 0 | 0 | 0 | 7 | 473 | 0 |
| Multilateral development banks | 1,171 | 227 | 20 | 0 | 0 | 0 | 0 | 1,418 | 0 |
| International organisations | 0 | 0 | 0 | 0 | 0 | 0 | 53 | 53 | 0 |
| Institutions | 633 | 12,078 | 623 | 112 | 99 | 0 | 59,215 | 72,760 | 0 |
| Corporates | 288 | 525 | 196 | 62 | 28 | 5 | 9,064 | 10,168 | 0 |
| Claim on institutions and corporates with a short-term credit assessment | 3,056 | 5,568 | 1,096 | 0 | 0 | 0 | 48 | 9,768 | 0 |
| Other items | 0 | 0 | 0 | 0 | 0 | 0 | 5 | 5 | 0 |
| Total exposure class | 5,594 | 18,458 | 1,935 | 174 | 127 | 5 | 68,754 | 95,047 | 0 |

Credit quality step analysis of post-CRM exposure and capital deductions under the Standardised Approach (USD million)

As at 31 December 2014

| <i>Exposure class</i> | Credit quality step | | | | | | Uniform regulatory treatment | Total | Deduction from capital resources |
|--|---------------------|---------------|--------------|------------|------------|----------|------------------------------|---------------|----------------------------------|
| | 1 | 2 | 3 | 4 | 5 | 6 | | | |
| Central governments and central banks | 10 | 0 | 0 | 0 | 0 | 0 | 346 | 356 | 0 |
| Regional governments or local authorities | 30 | 0 | 0 | 0 | 0 | 0 | 16 | 46 | 0 |
| Public sector entities | 406 | 60 | 0 | 0 | 0 | 0 | 7 | 473 | 0 |
| Multilateral development banks | 1,237 | 226 | 20 | 0 | 0 | 0 | 0 | 1,483 | 0 |
| International organisations | 0 | 0 | 0 | 0 | 0 | 0 | 53 | 53 | 0 |
| Institutions | 601 | 12,102 | 623 | 112 | 99 | 0 | 59,230 | 72,767 | 0 |
| Corporates | 1,108 | 797 | 256 | 62 | 27 | 5 | 8,932 | 11,187 | 0 |
| Claim on institutions and corporates with a short-term credit assessment | 3,062 | 4,872 | 832 | 0 | 0 | 0 | 48 | 8,814 | 0 |
| Other items | 0 | 0 | 0 | 0 | 0 | 0 | 5 | 5 | 0 |
| Total exposure class | 6,454 | 18,057 | 1,731 | 174 | 126 | 5 | 68,637 | 95,184 | 0 |

(1) Exposures falling under the category 'uniform regulatory treatment' comprise items where a specific treatment applies (ie. the risk weight is not dependent on the ECAI rating or CQS) and exposures where there is no ECAI rating. The largest exposure type in this category is CCP exposure, which accounts for USD51.8bn of the amount reported against the exposure class 'institutions'.

Securitisation

Overview

A traditional securitisation is a structure where an underlying pool of assets is sold to a special purpose entity ('SPE') which issues tranchised securities that are collateralised by, and which pay a return based on, the return on the underlying asset pool.

A synthetic securitisation is a tranchised structure where the credit risk of an underlying pool of exposures is transferred, in whole or in part, through the use of credit derivatives or guarantees that serve to hedge the credit risk of the portfolio. In both traditional and synthetic securitisations, risk is dependent on the seniority of the retained interest and the performance of the underlying asset pool.

Objectives in relation to securitisation activity and CSI's role

Although CSI has not undertaken any new securitisations of Banking Book assets during the year, it acts as derivative counterparty for securitisation SPEs. Additionally, CSI holds securitisation positions in its Trading Book. CSI's key objective in relation to Trading Book securitisation is to meet clients' investment and divestment needs through its market making role in securitised products across all major collateral types.

CSI's exposure resulting from continuing involvement in transferred financial assets is generally limited to beneficial interests typically held in the form of instruments issued by SPEs that are senior, subordinated or residual tranches or derivative instruments.

Beneficial interests, which are valued at fair value, include rights to receive all or portions of specified cash inflows received by an SPE, including, but not limited to, senior and subordinated shares of interest, principal, or other cash inflows to be 'passed through' or 'paid through' residual interests, whether in the form of debt or equity. Any changes in the fair value of these beneficial interests are recognised in CSI's financial statements.

Risks assumed and retained

The key risks retained are related to the performance of the underlying assets. These risks are summarised in the securitisation pool level attributes: PDs of underlying loans (default rate), severity of loss (LGD) and prepayment speeds.

The transactions may also be exposed to general market risk, credit spread and counterparty credit risk (see below).

Financial models project risk drivers based on market interest rates and volatility and macro-economic variables.

For re-securitisation risk, models take a 'look through' approach where they model the behaviour of the underlying securities based on their own collateral and then transmit that to the re-securitised position.

The impact of liquidity risk for securitisation products is embedded within CSI's historical simulation model through the incorporation of market data from stressed periods, and in the scenario framework through the calibration of price shocks to the same period.

Correlation and first-to-default products are valued using a correlation model which uses the market implied correlation and detailed market data such as constituent spread term structure and constituent recovery. The risks embedded in securitisation and re-securitisations are similar and include spread risk, recovery risk, default risk and correlation risk. The risks for different seniority of tranches will be reflected in the tranche price sensitivities to each constituent in the pools. The complexity of the correlation portfolio's risk lies in the level of convexity and inherent cross risk, for example, the risk of large spread moves, and the risk of spread and correlation moving together. The risk limit framework is designed to address the key risks for the correlation trading portfolio.

Management of credit and market risk

CSI has in place a comprehensive risk management process whereby the Front Office and Risk monitor positions and position changes, portfolio structure and trading activity and calculate a set of risk measures on a daily basis using risk sensitivities and loss modelling methodologies.

CSI has set limits for the purpose of managing its risk in relation to securitisations and re-securitisations. These limits cover exposure measures, risk sensitivities, VaR and capital measures with the majority monitored on a daily basis.

Retained Banking Book exposures for mortgage and asset-backed securities ('ABS') and collateralised debt obligation ('CDO') transactions are risk managed on the same basis as similar Trading Book transactions. Other transactions will be managed in line with their individual structural or parameter requirements.

Where counterparty credit risk exposure is identified for a particular transaction, there is a requirement for it to be approved through normal credit risk management processes with collateral taken as required. CSI may also use various proxies including corporate single name and index hedges to mitigate the price and spread risks to which it is exposed. Hedging decisions are made by the trading desk based on current market conditions and will be made in consultation with Risk, requiring approval under CSI's pre-trade approval governance process.

Credit risk mitigation

There are no instances where CSI has applied credit risk mitigation approaches to Banking Book securitisation or re-securitisation exposures. CSI does not typically retain material servicing responsibilities from securitisation activities.

In the normal course of business, CSI may hold tranches which have a monoline guarantee. No benefit from these guarantees is currently included in the calculation of regulatory capital.

Calculation of RWAs

Securities are classified by the nature of the collateral (eg. commercial mortgages and corporate loans) and the seniority each security has in the capital structure (eg. senior, mezzanine, subordinate), which in turn will be reflected in the transaction risk assessment. Risk monitors portfolio composition by capital structure and collateral type on a daily basis with subordinate exposure and each collateral type subject to separate risk limits. In addition, the internal risk methodology is designed such that risk charges are based on the place the particular security holds in the capital structure, the less senior the bond the higher the risk charges.

For Trading Book securitisations, specific risk of securitisation transactions is calculated using the IRB or Standardised Approach as applicable to the underlying asset type of the securitisation position; general market risk of securitisations is captured in market risk models.

For Banking Book securitisations, the RWAs are calculated under the available IRB approaches.

Accounting policies

The accounting policy with respect to special purpose entities is described in Note 2 of the CSI 2014 Annual Report, with further information provided in Note 35.

Trading Book securitisation exposures

The following tables detail the amount of exposures securitised by CSI and which were outstanding at 31 December 2014 and securitisation positions held at that date:

Securitisation exposures purchased or retained – Trading Book (USD million)

| As at 31 December 2014 | | Trading Book | |
|-----------------------------|--|--------------|------------|
| | | Traditional | Synthetic |
| Loans to corporates or SMEs | | 0 | 304 |
| Total | | 0 | 304 |

Trading Book – regulatory approach

The following tables analyse CSI's Trading Book exposures and related RWA values by regulatory approach and risk weight:

Exposures under standardised measurement method – Trading Book (USD million)

| As at 31 December 2014 | | Securitisation exposure | | Re-securitisation exposure | | Total | |
|--------------------------------------|-----------------------------------|-------------------------|-----------------------------------|----------------------------|-----------------------------------|----------|--|
| | EAD - purchased or retained | RWAs | EAD - purchased or retained | RWAs | EAD - purchased or retained | RWAs | |
| Supervisory Formula Approach ('SFA') | 304 | 0 | 0 | 0 | 304 | 0 | |
| Total IRB approaches | 304 | 0 | 0 | 0 | 304 | 0 | |

Securitisation and re-securitisation exposures under SFA by risk weight band – Trading Book (USD million)

| As at 31 December 2014 | | Securitisation exposure | | Re-securitisation exposure | | Total | |
|------------------------|-----------------------------------|-------------------------|-----------------------------------|----------------------------|-----------------------------------|----------|--|
| | EAD - purchased or retained | RWAs | EAD - purchased or retained | RWAs | EAD - purchased or retained | RWAs | |
| 0% - 10% | 304 | 0 | 0 | 0 | 304 | 0 | |
| Total | 304 | 0 | 0 | 0 | 304 | 0 | |

Trading Book – losses, impaired and past due assets

There were no losses, impairments or past due items in relation to securitised Trading Book exposures as at 31 December 2014.

Banking Book securitisation exposures

The following tables detail the amount of exposures securitised by CSI and which were outstanding at 31 December 2014 and securitisation positions held at that date:

Outstanding exposures securitised - Banking Book (USD million)

| As at 31 December 2014 | | | | |
|-----------------------------|----------|--------------|-----------|--------------|
| | Sponsor | Other role | | Total |
| | | Traditional | Synthetic | |
| Commercial mortgages | 0 | 4,946 | 0 | 4,946 |
| Loans to corporates or SMEs | 0 | 1,071 | 0 | 1,071 |
| Total | 0 | 6,017 | 0 | 6,017 |

Securitisation exposures purchased or retained - Banking Book (USD million)

| As at 31 December 2014 | | |
|-----------------------------|--------------|-----------|
| | Traditional | Synthetic |
| Residential mortgages | 1,065 | 0 |
| Commercial mortgages | 190 | 0 |
| Loans to corporates or SMEs | 106 | 0 |
| Consumer loans | 135 | 0 |
| Total | 1,496 | 0 |

Banking Book – regulatory approach

The following tables analyse CSI's EAD and RWAs in respect of Banking Book securitisation and re-securitisation positions by regulatory approach, and, as relevant, by rating grade or risk weight:

Securitisation and re-securitisation exposures by regulatory capital approach – Banking Book (USD million)

| As at 31 December 2014 | | | | | | |
|------------------------------------|-----------------------------|------------|-----------------------------|-----------|-----------------------------|------------|
| | Securitisation exposure | | Re-securitisation exposure | | Total | |
| | EAD - purchased or retained | RWAs | EAD - purchased or retained | RWAs | EAD - purchased or retained | RWAs |
| Ratings-based approach (RBA) | 1,391 | 153 | 24 | 7 | 1,415 | 160 |
| Supervisory formula approach (SFA) | 39 | 57 | 42 | 38 | 81 | 95 |
| Total IRB approaches | 1,430 | 210 | 66 | 45 | 1,496 | 255 |

Securitisation and re-securitisation exposures under RBA by rating grade – Banking Book (USD million)

| As at 31 December 2014 | | | | | | |
|------------------------|-----------------------------|------------|-----------------------------|----------|-----------------------------|------------|
| | Securitisation exposure | | Re-securitisation exposure | | Total | |
| | EAD - purchased or retained | RWAs | EAD - purchased or retained | RWAs | EAD - purchased or retained | RWAs |
| AAA | 839 | 63 | 12 | 3 | 851 | 66 |
| AA | 487 | 42 | 11 | 3 | 498 | 45 |
| A | 21 | 3 | 1 | 1 | 22 | 4 |
| BBB | 2 | 2 | 0 | 0 | 2 | 2 |
| B or lower or unrated | 42 | 43 | 0 | 0 | 42 | 43 |
| Total | 1,391 | 153 | 24 | 7 | 1,415 | 160 |

Securitisation and re-securitisation exposures under SFA by risk weight band – Banking Book (USD million)

| As at 31 December 2014 | | | | | | |
|------------------------|-----------------------------------|-----------|-----------------------------------|-----------|-----------------------------------|-----------|
| | Securitisation exposure | | Re-securitisation exposure | | Total | |
| | EAD - purchased or retained | RWAs | EAD - purchased or retained | RWAs | EAD - purchased or retained | RWAs |
| > 50% - 100% | 0 | 0 | 42 | 38 | 42 | 38 |
| >100% - 650% | 39 | 57 | 0 | 0 | 39 | 57 |
| Total | 39 | 57 | 42 | 38 | 81 | 95 |

Banking Book – losses, impaired and past due assets

The following tables provide detail of losses related to securitisations and impaired and past due Banking Book assets:

Losses related to securitisations recognised during the period – Banking Book (USD million)

| As at 31 December 2014 | | |
|------------------------|-------------|------------|
| | Traditional | |
| | Sponsor | Other role |
| Commercial mortgages | 0 | 7 |
| Total | 0 | 7 |

Impaired or past due assets securitised – Banking Book (USD million)

| As at 31 December 2014 | | |
|------------------------|-------------|------------|
| | Traditional | |
| | Sponsor | Other role |
| Commercial mortgages | 0 | 644 |
| Total | 0 | 644 |

Market risk

Overview

CSi has policies and processes in place to ensure that market risk is captured, accurately modelled and reported, and effectively managed. Trading and non-trading portfolios are managed at various organisational levels, from the overall risk positions at entity level down to specific portfolios. CSi uses market risk measurement and management methods in line with industry standards. These include general tools capable of calculating comparable exposures across CSi's many activities and 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. The risk management techniques and policies are regularly reviewed to ensure they remain appropriate.

Criteria for inclusion in the Trading Book

CSi falls within the scope of the CS group's Trading Book Policy. The policy sets out the principles for the classification of products between Trading and Banking Book for the purpose of regulatory capital and market risk measurement. Specifically, it sets out the criteria which must be met in order to allocate positions to the Trading Book. The policy is common to all entities within the CS group and adherence to its requirements is mandatory.

The criteria for Trading Book classification are, broadly, that the position must be a transferable or hedgeable financial instrument; that there must be trading intent or a hedging relationship with another Trading Book item; and that daily fair value methodology must be applied for regulatory and risk management purposes. The fair value methodology is itself the subject of policies, procedures and verification controls that exist separately as part of the overall valuation process operated across the CS group.

In addition to the policy document, the governance arrangements relating to Trading Book classification, management and control incorporate a number of components. These include a Trading Book Eligibility Committee which is responsible for reviewing and approving (or rejecting) proposed transfers between Trading and Banking Books; and reviewing complex Trading/Banking Book classification decisions. Trading Book status is subject to re-validation by Product Control each year, and additionally on an ad hoc basis when required.

As described, Trading Book classification is one of the criteria for inclusion of positions in the VaR model for calculating regulatory capital requirements.

Market risk capital requirements

The following table details the components of CSi's capital requirement for market risk (Trading Book unless otherwise stated):

| Market risk capital requirement (USD million) | | | | |
|--|---------------|---------------------|---------------|---------------------|
| As at 31 December | 2014 | | 2013 | |
| | RWAs | Capital requirement | RWAs | Capital requirement |
| <i>PRA Standard Rules</i> | | | | |
| Interest rate risk on securitisations and tranching risk positions | 409 | 33 | 213 | 17 |
| Foreign exchange (Banking Book) | 354 | 28 | 225 | 18 |
| Total PRA Standard Rules | 763 | 61 | 438 | 35 |
| <i>Internal Models Approach</i> | | | | |
| VaR | 1,699 | 136 | 1,725 | 138 |
| Stressed VaR | 5,039 | 403 | 2,538 | 203 |
| Risks not in VaR ('RNIV') | 7,214 | 577 | 6,463 | 517 |
| Stressed RNIV | 6,526 | 522 | 5,750 | 460 |
| Incremental risk charge ('IRC') | 4,591 | 367 | 5,675 | 454 |
| Total Internal Models Approach | 25,069 | 2,005 | 22,151 | 1,772 |
| Total market risk RWAs and capital requirement | 25,832 | 2,066 | 22,589 | 1,807 |

Value at risk

Various techniques are used to assess the accuracy of the VaR model used for trading portfolios, including back-testing. In line with industry practice, CSi undertakes back-testing using actual and hypothetical daily trading revenues. Actual and hypothetical daily trading revenues are compared with a regulatory 99% VaR calculated using a one-day holding period. A back-testing exception occurs when the daily trading loss exceeds the daily VaR estimate. CSi had three back-testing exceptions in 2014 (2013: five).

For capital purposes, the PRA uses a multiplier to impose additional market risk capital. The multiplier is increased for every regulatory VaR exception over four in the prior rolling 12-month period calculated using a subset of actual and hypothetical daily trading revenues.

Within CSI's model-based calculations of market risk, values measured during the period are summarised as follows:

| VaR (USD million) | | | |
|--------------------------|----------------------------|--------------------------|-------|
| 2014 | | | |
| | Regulatory VaR (10-day) | Stressed VaR (10-day) | IRC |
| Average | 44.0 | 99.9 | 359.7 |
| Minimum | 30.5 | 49.8 | 188.9 |
| Maximum | 69.3 | 229.2 | 614.3 |
| End of period | 47.7 | 88.3 | 320.2 |

VaR measures the potential loss in terms of fair value of financial instruments due to adverse market movements over a defined time horizon at a specified confidence level. Positions are aggregated by risk type rather than by product. For example, interest rate risk includes risk arising from money market and swap transactions, bonds, and interest rate, foreign exchange, equity and commodity options. The use of VaR allows the comparison of risk in different businesses, such as fixed income and equity, and also provides a means of aggregating and netting a variety of positions within a portfolio to reflect actual correlations and offsets between different assets.

CSI uses an historical simulation model for the majority of risk types and businesses within its trading portfolios. Historical financial market rates, prices and volatility serve as a basis for the statistical VaR model underlying the potential loss estimation. This methodology avoids any explicit assumptions on correlation between risk factors. CSI uses a ten-day holding period and a confidence level of 99% to model the risk in its trading portfolios. These assumptions are compliant with CRR requirements. CSI uses the same underlying VaR model for risk management and regulatory capital purposes, with identical confidence levels and holding periods used.

To ensure that VaR responds appropriately in times of market stress, CSI uses a scaling technique that automatically increases VaR where the short-term market volatility is higher than the long-term volatility in the three-year dataset. This results in a more responsive VaR model, as the impact of changes in overall market volatility is reflected almost immediately in the VaR model.

CSI has approval from the PRA to use its regulatory VaR model in the calculation of Trading Book market risk capital requirements (see Internal Models Approach below).

The VaR model uses assumptions and estimates that CSI believes are reasonable, but changes to assumptions or estimates could result in a different VaR measure. The main assumptions and limitations of VaR as a risk measure are:

- VaR relies on historical data to estimate future changes in market conditions, which may not capture all potential future outcomes, particularly where there are significant changes in market conditions;
- although VaR captures the interrelationships between risk factors, these interrelationships may break down during stressed market conditions;
- VaR provides an estimate of losses at a 99% confidence level, which means that it does not provide any information on the size of losses that could occur beyond that confidence threshold;
- VaR is based on either a ten-day (for internal risk management and regulatory purposes) or one-day (for back-testing purposes) holding period. This assumes that risks can be either sold or hedged over that period, which may not be possible for all types of exposure, particularly during periods of market illiquidity or turbulence; and
- VaR is calculated using positions held at the end of each business day and does not include intraday exposures.

For some risk types there can be insufficient historical data for a calculation within the VaR model (often because underlying instruments have only traded for a limited time). Where CSI does not have sufficient market data, either market data proxies or extreme moves for these risk types are used. Market data proxies are selected to be as close to the underlying instrument as possible. Where neither a suitable market dataset nor a close proxy is available, extreme moves are used. Extreme moves are aggregated assuming a conservative 100% correlation. Risks that are not currently implemented within CSI's VaR model such as certain basis risks, higher order risks and cross risks are captured through Risks Not in VaR ('RNIV') calculations.

CSI uses a risk factor identification process to ensure that risk is identified and measured correctly. There are two parts to this process. First, the market data dependency approach systematically determines the risk requirements based on data inputs used by Front Office pricing models and compares this with the risk types that are captured by the Bank's VaR model and the RNIV framework. Second, the product-based approach is a qualitative analysis of product types to identify the risk types that those product types would be exposed to. A comparison is again made with the risk types that are captured in the VaR and RNIV frameworks. Through this process, risks that are not yet captured in the VaR model or the RNIV framework are identified. A plan for including these risks in one of these frameworks can then be formulated.

Like other sophisticated models, CSI's VaR model is subject to internal governance including model validation independent from model developers. Validation includes identifying and testing the model's assumptions and limitations, investigating its performance through historical and potential future stress events, and testing that the live implementation of the model behaves as intended.

CSi employs a range of different control processes to help ensure that the models used for market risk remain appropriate over time. As part of these control processes, both the VaR Governance Steering Committee and the UK Model Performance Committee will review model performance and approve any new or amended models.

Risk measurement and management

For the purposes of this disclosure, VaR is used to quantify market risk in the trading portfolio, which includes those financial instruments treated as part of the Trading Book for regulatory capital purposes. The trading portfolio as determined for risk management purposes primarily includes a majority of trading assets and liabilities, selected fair-valued positions of investment securities, other investments, other assets (mainly derivatives used for hedging, loans and real estate held-for-sale), short-term borrowings, long-term debt and other liabilities (mainly derivatives used for hedging).

CSi is active in most of the principal trading markets of the world, using the majority of common trading and hedging products, including derivatives such as swaps, futures, options and structured products (some of which are customised transactions using combinations of derivatives and executed to meet specific client or proprietary needs). As a result of CSi's broad participation in products and markets, trading strategies are correspondingly diverse and exposures are generally spread across a range of risk factors and locations.

Risks associated with the embedded derivative elements of CSi's structured products are actively monitored and managed on a portfolio basis as part of the overall trading portfolio and are reflected in VaR measures.

Scenario analysis

Stress testing complements other risk measures by capturing CSi's exposure to unlikely but plausible events, which can be expressed through a range of significant moves across multiple financial markets. The majority of scenario analysis calculations performed are specifically tailored toward the risk profile within particular businesses, and limits may be established if they are considered the most appropriate control. In addition, to identify areas of risk concentration and potential vulnerability to stress events at entity level, a set of scenarios are used which are consistently applied across all businesses and assess the impact of significant, simultaneous movements across a broad range of markets and exposure classes.

Stress testing is a fundamental element of CSi's risk control framework, with results used in risk appetite discussions and strategic business planning, and to support the internal capital adequacy assessment. Stress test scenarios are conducted on a regular basis and the results, trend information and supporting analysis are reported to the Board of Directors, senior management and business lines.

CSi's stress testing framework is governed through a dedicated steering committee that operates across the CS group. Scenarios can be defined with reference to historic events or based on forward-looking, hypothetical events that could impact CSi's positions, capital, or profitability. The scenarios are reviewed and updated as markets and business strategies evolve, and new scenarios are designed by the Risk division in collaboration with Global Research and business divisions.

Internal models approach

The market risk Internal Models Approach ('IMA') framework includes regulatory VaR, stressed VaR, RNIV, stressed RNIV and incremental risk capital charge ('IRC').

Regulatory VaR, stressed VaR and risks not in VaR

CSi received permission from the PRA to use a VaR model to calculate Trading Book market risk capital requirements under the IMA. CSi applies the IMA to the majority of the positions in its Trading Book. CSi continues to seek regulatory approval for ongoing enhancements to the VaR methodology where applicable. Stressed VaR replicates a VaR calculation in CSi's current portfolio taking into account a one-year observation period relating to significant financial stress and helps to reduce the pro-cyclicality of the minimum capital requirements for market risk. The VaR model does not cover all identified market risk types, and as such CSi has also adopted an RNIV category.

Credit correlation products (including ABS positions) are not fully covered by the VaR model approval. These positions are permitted to remain in VaR, but CSi is additionally required to hold capital under standard rules for specific risk as set out in the CRR.

Incremental risk capital charge

The IRC model is required to measure the aggregate risk from the exposure to issuer default and migration risk from positions in the Trading Book. The positions that contribute to IRC are bond positions where CSi is exposed to profit or loss on default or rating migration of the bond issuer, CDS positions where CSi is exposed to credit events affecting the reference entity, and, to a lesser extent, derivatives that reference bonds and CDSs such as bond options and CDS swaptions. Equity positions are not included in IRC. Positions excluded from IRC include securitisation position and credit correlation products (such as synthetic CDOs and nth-to-default ('NTD') trades).

The IRC model assesses risk at 99.9% confidence level over a one-year time horizon assuming that positions are sold and replaced one or more times. At the same time upon replacement, the model considers credit quality of the old position and assesses the effect of declining or upgrading of credit quality which may lead to changes in the overall assessment of IRC.

The level of capital assigned by the IRC model to a position depends on its liquidity horizon which represents time required to sell the positions or hedge all material risk covered by the IRC model in a stressed market. Liquidity horizons are modelled

according to the regulatory requirements. In general, positions with shorter assigned liquidity horizons will contribute less to overall IRC.

The IRC model and liquidity horizon methodology have been validated by an independent team in accordance with CSi's validation umbrella policy and Risk Model Validation Sub-Policy for IRC.

The IRC-weighted average liquidity horizons by portfolio are shown in the table below:

| IRC-weighted average liquidity horizon | |
|--|------------|
| As at 31 December 2014 | |
| <i>Sub-portfolio</i> | Months |
| Equities | 6.8 |
| Fixed Income | 5.7 |
| IB Non-Strategic | 8.1 |
| Entity IRC-weighted average liquidity horizon | 6.3 |

Valuation process

The Basel capital adequacy framework and CRR provide guidance for systems and controls, valuation methodologies and valuation adjustments and reserves to provide prudent and reliable valuation estimates.

Financial instruments in the Trading Book are carried at fair value. The fair value of the majority of these financial instruments is marked-to-market based on quoted prices in active markets or observable inputs. Additionally, CSi holds financial instruments which are marked-to-models where the determination of fair values requires subjective assessment and varying degrees of judgment depending on liquidity, concentration, pricing assumptions and the risks affecting the specific instrument.

Control processes are applied to ensure that the reported fair values of the financial instruments, including those derived from pricing models, are appropriate and determined on a reasonable basis. These control processes include approval of new instruments, timely review of profit and loss, risk monitoring, price verification procedures and validation of models used to estimate the fair value. These functions are managed by senior management and personnel with relevant expertise, independent of the trading and investment functions.

In particular, the price verification function is performed by Product Control, independent from the trading and investment functions, reporting directly to the Chief Financial Officer, a member of the Executive Board.

The valuation process is governed by separate policies and procedures. To arrive at fair values, the following type of valuation adjustments are typically considered and regularly assessed for appropriateness: model, parameter, credit and exit-risk-related adjustments.

CSi believes it complies with the relevant valuation guidance and that the estimates and assumptions used in valuation of financial instruments are prudent, reasonable and consistently applied.

Further information on fair value can be found in the 2014 Annual Report: Note 2(j), Significant Accounting Policies; Note 3, Critical Accounting Estimates and Judgements in Applying Accounting Policies and Note 36 Financial Instruments.

Prudent valuation

CSi has processes and procedures in place to ensure compliance with Basel Committee on Banking Supervision ('BCBS') guidance on prudent valuation, specifically Article 105 of the CRR. CSi maintains systems and controls to incorporate the elements specified in the guidance, and relevant factors are taken into consideration for fair value purposes.

Additionally CSi's capital treatment in regards to prudent valuation is assessed in accordance with guidance published by the PRA. As a result, CSi considers its fair value inventory and applies additional prudent valuation adjustments which are deducted from CET1 capital.

Interest rate risk in the Banking Book

Overview

CSi manages Banking Book interest rate risk which includes monitoring the potential impact of changes in interest rates. The economic impacts of adverse parallel shifts in interest rates of 200 basis points were significantly below the threshold of 20% of eligible regulatory capital used by regulators to identify excessive levels of non-trading interest rate risk. This risk is not capitalised within the Pillar 1 regime, rather, it is analysed within the ICAAP and addressed in the PRA's determination of CSi's Pillar 2 capital requirement.

CSi's interest rate risk exposures in these non-trading positions arise from treasury and funding activity, with the majority of interest rate risk transferred to and centrally managed by CS group Treasury on a portfolio basis within approved limits using appropriate hedging instruments. The Credit Suisse Group Board of Directors defines interest rate risk appetite for the group and its subsidiaries, including CSi, on an annual basis. Within those limits, the Capital Allocation and Risk Management Committee ('CARMC') has defined early warning triggers.

Risk measurement

The risks associated with the non-trading interest rate-sensitive portfolios are measured using a range of tools, including the following key metrics:

- **interest rate sensitivity ('DV01')**: expresses the linear approximation of the impact on a portfolio's fair value resulting from a one basis point (0.01%) parallel shift in yield curves, where the approximation tends to be closer to the true change in the portfolio's fair value for smaller parallel shifts in the yield curve. The DV01 is a transparent and intuitive indicator of linear directional interest rate risk exposure, which does not rely on statistical inference;
- **VaR**: a statistical indicator of the potential fair value loss, taking into account the observed interest rate moves across yield curve tenors and currencies. In addition, VaR takes into account yield curve risk, spread and basis risks, as well as foreign exchange and equity risk; and
- **economic value scenario analysis**: expresses the impact of a pre-defined scenario (eg. instantaneous changes in interest rates) on a portfolio's fair value. This metric does not rely on statistical inference.

These measures focus on the impact on a fair value basis, taking into account the present value of all future cash flows associated with the current positions. More specifically, the metrics estimate the impact on the economic value of the current portfolio, ignoring dynamic aspects such as the time schedule of how changes in economic value materialise in profit and loss (since most non-trading books are not marked-to-market) and the development of the portfolio over time.

CSi's Banking Book does not include any replicated non-maturing deposits or loans with replicated prepayment options.

Monitoring and review

Limits and other interest rate risk metrics are monitored by the Risk division at least monthly or more frequently as deemed necessary with any limit breaches escalated appropriately.

The following tables show the fair value impact of yield curve increases and interest rate changes, by currency:

One-basis-point parallel increase in yield curves by currency – non-trading positions (USD million equivalent)

| As at 31 December 2014 | | | | | | |
|--|-----|-------|-----|-----|-------|-------|
| | USD | GBP | EUR | CHF | Other | Total |
| Fair value impact of a one-basis-point parallel increase in yield curves | 0.8 | (0.3) | 1.1 | 0.0 | 0.0 | 1.6 |

Fair value impact of changes in interest rates on non-trading positions (USD million equivalent)

| As at 31 December 2014 | | | | | | |
|-------------------------------|---------|--------|--------|-------|-------|---------|
| Basis points movement + / (-) | USD | GBP | EUR | CHF | Other | Total |
| 200 | 133.6 | (58.7) | 215.9 | 0.0 | (0.2) | 290.6 |
| 100 | 73.5 | (29.5) | 108.9 | (0.1) | (0.1) | 152.7 |
| (100) | (88.8) | 30.1 | (46.2) | (0.5) | 0.0 | (105.4) |
| (200) | (182.0) | 39.6 | (48.6) | (0.6) | 0.2 | (191.4) |

Operational risk

Overview

The Operational Risk Policy sets out the principles and framework for managing operational risk in CSi. The Operational Risk Framework ('the Framework') provides a systematic approach to operational risk management. The Framework comprises a series of interrelated components that CSi uses to identify, measure, monitor and control operational risks in line with its risk appetite across all divisions, regions and legal entities. These components include policies, systems, processes, measurement techniques, reporting mechanisms and governance arrangements that have been designed to provide a robust and comprehensive approach to managing operational risks. The Framework components are periodically updated and enhanced to take account of lessons learned.

Operational risk appetite

The Operational Risk Appetite is a forward-looking view of risk acceptance that articulates the nature, types and levels of operational risk that the Bank is willing to assume in pursuit of its business activities in both quantitative and qualitative terms. It sets out the boundaries within which senior management is expected to operate when pursuing CSi's strategy. The tolerance levels and statements for CSi are approved by the Board. Any breaches of the Operational Risk Appetite trigger actions under the Responses Framework (described below).

Operational risk register

The Operational Risk Register ('ORR') comprises a catalogue of inherent operational risks arising as a consequence of business activities and is the most granular classification of operational risks used by CSi. It provides a standardised terminology of inherent risks across CSi covering inherent operational risks on a front-to-back basis, ie. risks inherent in business divisions and shared services departments. It also provides the basis to identify, assess, mitigate and monitor operational risk throughout the CS group, as well as providing the capability to aggregate and report residual operational risk exposure. As such, it also constitutes the basis for conducting 'risk and control self-assessments' and determining 'Top Operational Risks'.

Internal control systems

Internal controls are in place to mitigate the risks associated with CSi's processes. The ORM Framework and Governance has defined guidance to ensure that controls are executed, assessed and evidenced on a consistent and comprehensive basis, with a focus on CSi's key risks and controls. As the Internal Control Framework is still in the process of being implemented, the full requirements of the ORM Framework and Governance guidance are currently applied only to a subset of key controls, but the intention is to extend this to cover all such controls in future years.

Risk and control indicators

Risk and control indicators are metrics that provide information on operational risk exposures and the effectiveness of controls, respectively. From their monitoring, trends in indicator performance can be used to assess whether risks or controls are improving or deteriorating. Business divisions and shared services departments typically monitor a wide variety of metrics, including those deriving from the Operational Risk Framework.

Incident investigations and data

CSi uses the output of investigations into internal and relevant external incidents to inform its risk measurement and management processes. Internal and external incidents are subject to separate review and assessment processes that reflect differences in the amounts of available information and degree of applicability to CSi.

Risk and control self-assessment process

The risk and control self-assessment ('RCSA') process is a systematic process that reviews the inherent operational risks in each business division and shared services department, assesses the effectiveness of the controls in place to mitigate these risks, and produces an evaluation of CSi's 'residual risks'. The RCSA process takes inputs from several of the other Framework components, and its results feed into many of the Framework's key processes. At a minimum, business divisions and shared services departments must conduct an RCSA within each calendar year though more frequent updates may be triggered by material changes to the business environment or risk profile.

Top operational risks and remediation plans

Top operational risks ('TORs') are defined as the most significant residual operational risks that require executive level management oversight to avoid occurrence or prevent re-occurrence of significant incidents, significant regulatory scrutiny, enforcement or legal action, substantial damage to CSi's reputation or franchise or significant unmitigated risk in excess of risk appetite.

Capital modelling and scenarios

CSi uses the Basic Indicator Approach to determine its Pillar 1 capital requirement in respect of operational risk.

Scenario analysis is used to evaluate CSi's exposure to high-severity 'tail' events, such as unauthorised trading scenarios or severe business disruption, the results of which provide CSi with a forward-looking view of its risk profile.

Reporting

Operational risk reports exist that provide information on a range of Framework components. These include formal reports to governance committees and senior management, as well as operating-level reports for risk analysts and managers.

Responses framework

The Responses Framework provides a governance structure and process for how CSi responds to various kinds of operational risk event. The purpose of the Responses Framework is to ensure that operational risk events of various types and severity are reviewed by appropriate levels of management and to provide guidance on the range of possible responses in relation to incidents and breach management.

Conduct and behaviour

The CS group has defined a set of ten 'business conduct behaviours' that are designed to reduce operational risk incidents. These behaviours incorporate lessons learned from previous incidents at CSi, peer firms and other industry types.

Conduct risk is the risk of poor conduct or behaviour of the CS group, its employees, associates or representatives that results in:

- financial or non-financial detriment to clients, customers and counterparties, whether the CS group deals with them directly or via a third party;
- damage to the integrity of the financial markets;
- ineffective competition in the markets in which the CS group participates; and
- non-compliance with the laws or regulations (or the spirit of such laws and regulations) or failure to meet the expectations of stakeholders including policymakers, regulators, government bodies or society.

A UK Conduct Risk Committee ('UK CRC') has been established which is designed to enable CSi to review the effectiveness of the conduct risk framework and challenge business leaders on the suitability and effectiveness of the measures and tools used in their businesses to identify, control and mitigate conduct risk.

The UK CRC is tasked with sponsoring and reviewing appropriate policies and procedures and monitoring peer group and regulatory statements and developments in the conduct risk space. The UK CRC considers reports covering conduct risk identification, conduct risk mitigation and conduct risk management information. Priorities for 2015 include embedding business conduct behaviours throughout the employee lifecycle (including recruitment, induction, training, promotions, performance assessment and compensation) and increased focus on conduct risk in 2015 RCSAs and extending best practice globally.

Leverage

Overview

The leverage ratio was introduced by the CRR from 2014, although prescribed regulatory requirements will not be binding on financial institutions until 2018. Subsequent amendments to the leverage ratio calculation methodology (including treatment of securities financing transactions, cash variation margin and credit default swap notional values) were proposed by BCBS and the amended CRR. These impacts will be monitored from 2015 by CSI.

In conjunction with other regulatory and capital metrics such as RWA levels, leverage ratios are actively monitored and managed within CSI's capital management governance processes. Similar to the CS group level, internal targets (including the setting of internal management buffers where required) are developed and monitored and this process is flexible, reflecting changing regulatory expectations.

Longer-term strategies will consider the leveraging or deleveraging impacts resulting from both business development and the impact of future regulatory change to ensure CSI continues to meet external and internal expectations. CSI's stress testing framework will consider the impact on leverage ratios of both internal and regulator-prescribed stress tests.

Factors impacting the leverage ratio during the period

CSI's leverage ratio was 6.4% at 31 December 2014 which is broadly consistent with the position at 31 March 2014. There was no material change in the level of Tier 1 capital or in the level of leverage exposure measures such as OTC derivative counterparty exposures, cash balances (overnight funding loans) and trading inventory.

Summary reconciliation of accounting assets and leverage ratio exposures (USD million)

| As at 31 December 2014 | |
|--|----------------|
| Total assets as per published financial statements | 547,955 |
| Adjustments for derivative financial instruments | (177,758) |
| Adjustments for securities financing transactions | (33,697) |
| Adjustment for off-balance sheet items | 12,374 |
| Leverage ratio exposure prior to regulatory adjustments | 348,874 |
| Regulatory adjustments - Tier 1 | (1,624) |
| Leverage ratio exposure | 347,250 |

Leverage ratio common disclosure (USD million)

| As at 31 December 2014 | |
|--|----------------|
| <i>On-balance sheet exposures</i> | |
| On-balance sheet items (excluding derivatives and SFTs, but including collateral) | 115,781 |
| (i) Total on-balance sheet exposures (excluding derivatives and SFTs) | 115,781 |
| <i>Derivative exposures</i> | |
| Replacement cost associated with derivatives transactions | 62,663 |
| Add-on amounts for PFE associated with derivatives transactions | 152,882 |
| (ii) Total derivative exposures | 215,545 |
| <i>Securities financing transaction exposures</i> | |
| SFT exposure according to Article 220 of the CRR | 5,174 |
| (iii) Total securities financing transaction exposures | 5,174 |
| <i>Off-balance sheet exposures</i> | |
| Off-balance sheet exposures at gross notional amount | 12,374 |
| (iv) Total off-balance sheet exposures | 12,374 |
| (v) Exposures of financial sector entities according to Article 429(4) of the CRR | 0 |
| Total exposures ((i) - (v)) | 348,874 |
| Tier 1 capital | 22,364 |
| Leverage ratios | |
| End of quarter leverage ratio | 6.4% |
| Leverage ratio (average of the monthly leverage ratios over the quarter) | 6.8% |

**Split of on-balance sheet exposures by Banking and Trading Book (excluding derivatives and SFTs)
(USD million)**

| | |
|---|----------------|
| As at 31 December 2014 | |
| <i>Banking Book exposures</i> | |
| Exposures treated as sovereigns | 5,535 |
| Exposures to regional governments, MDB, international organisations and PSE not treated as sovereigns | 3,287 |
| Institutions | 29,292 |
| Corporate | 44,773 |
| Other exposures | 402 |
| Total Banking Book exposures | 83,289 |
| Trading Book exposures | 32,492 |
| Total on-balance sheet exposures (excluding derivatives and SFTs): | 115,781 |

Asset encumbrance

Overview

The main source of asset encumbrance within CSi is related to securities lending and derivatives transactions. Securities lending transactions encumber collateral through a combination of repo and stock loan/borrow activity, with derivatives transactions causing encumbrance through collateralisation of derivative transaction exposures.

Collateralisation agreements entered into for securing liabilities

Secured lending and stock borrow/loan transactions are principally governed by Global Master Repurchase Agreements ('GMRA's') and Global Master Stock Lending Agreements ('GMSLA's'). These agreements generally focus on the mechanism of collateral delivery, income on the collateral positions and other impacts (eg. corporate actions occurring on collateral or failure to deliver).

Collateral

Collateral postings on derivatives transactions are principally governed by ISDA agreements, including Credit Support Annex ('CSA') documentation. These agreements determine the asset type used to satisfy collateral obligations and any re-hypothecation restrictions related to derivatives collateralisation. Collateral pledged to CSi in excess of the minimum requirement, and collateral owed by CSi to counterparties which has not yet been called is considered as part of the internal monitoring procedures for the management of asset encumbrance.

Unencumbered assets

The amount reported in the first table below as 'other assets' within 'carrying amount of unencumbered assets' comprises mainly derivative assets, intangible assets, deferred tax, tangible fixed assets and various receivable balances (both trade and non-trade). None of these asset types is considered available for encumbrance in the normal course of business.

Assets – encumbered and unencumbered asset analysis (USD million)

| As at 31 December 2014 | | | | | | |
|---|--------------------------------------|---------------------------------|--|-----------------------------------|-----------------------------|----------------------------|
| | Carrying amount of encumbered assets | Fair value of encumbered assets | Carrying amount of unencumbered assets | Fair value of unencumbered assets | Total asset carrying amount | Total fair value of assets |
| <i>Assets</i> | | | | | | |
| Loans on demand | 0 | 0 | 55,295 | 55,295 | 55,295 | 55,295 |
| Equity instruments | 5,471 | 5,471 | 4,309 | 4,309 | 9,780 | 9,780 |
| Debt securities | 10,279 | 10,279 | 15,424 | 15,424 | 25,703 | 25,703 |
| Loans and advances other than loans on demand | 21 | 21 | 60,017 | 60,017 | 60,038 | 60,038 |
| Other assets | 29 | 29 | 397,110 | 397,110 | 397,139 | 397,139 |
| Total assets | 15,800 | 15,800 | 532,155 | 532,155 | 547,955 | 547,955 |

Collateral received (USD million)

| As at 31 December 2014 | | |
|---|--|---|
| | Fair value of encumbered collateral received or own debt securities issued | Fair value of collateral received or own debt securities issued available for encumbrance |
| Collateral received | | |
| Equity instruments | | 5,185 |
| Debt securities | | 36,832 |
| Other collateral received | | 0 |
| Total collateral received | | 42,017 |
| Own debt securities issued other than own covered bonds or ABSs | | 0 |
| Total | | 42,017 |

Carrying amount of encumbered assets and collateral received and associated liabilities (USD million)

| As at 31 December 2014 | | Carrying amount |
|---|--|-----------------|
| Matching liabilities, contingent liabilities or securities lent | | 24,645 |
| Assets, collateral received and own debt securities issued other than covered bonds and ABSs encumbered | | 25,217 |

Appendix 1: Tier 2 instruments

Credit Suisse International – Tier 2 instruments as at 31 December 2014 (page 1/2)

| No. | Term | Tier 2 instruments | | | | | | |
|-----------------------------|--|--|--|---|---|---|---|---|
| 1 | Date of Agreement | 17-Aug-2001 | 15-Mar-2006 | 14-Dec-2007 | 16-Feb-2001 | 16-Nov-2005 | 31-Jan-2007 | 14-Dec-2007 |
| 2 | Issuer/Lender | Credit Suisse PSL GmbH | CSFB (Cayman) Ltd | CSFB (Cayman) Ltd | CSFB Finance BV | CSFB (Cayman) Ltd | CSFB (Cayman) Ltd | CSFB (Cayman) Ltd |
| 3 | Governing Law | English | English | English | English | English | English | English |
| Regulatory treatment | | | | | | | | |
| 4 | Transitional CRR Rules | Tier 2 | Tier 2 | Tier 2 | Tier 2 | Tier 2 | Tier 2 | Tier 2 |
| 5 | Post-transitional CRR Rules | Tier 2 | Tier 2 | Tier 2 | Tier 2 | Tier 2 | Tier 2 | Tier 2 |
| 6 | Eligible at solo and / or consolidated basis? | Solo | Solo | Solo | Solo | Solo | Solo | Solo |
| 7 | Instrument type | Subordinated debt | Subordinated debt | Subordinated debt | Subordinated debt | Subordinated debt | Subordinated debt | Subordinated debt |
| 8 | Amount recognised in regulatory capital as at 31 December 2014 (million) | \$0.3 | \$950.2 | \$1,500.0 | \$0.5 | \$300.2 | \$1,100.0 | \$1,500.0 |
| 9 | Nominal amount of instrument (million) | \$0.3 | \$950.2 | \$1,500.0 | \$0.5 | \$300.2 | \$1,100.0 | \$1,500.0 |
| 10 | Issue price | Par | Par | Par | Par | Par | Par | Par |
| 11 | Redemption price | Par | Par | Par | Par | Par | Par | Par |
| 12 | Accounting classification | Liability - amortised cost | Liability - amortised cost | Liability - amortised cost | Liability - amortised cost | Liability - amortised cost | Liability - amortised cost | Liability - amortised cost |
| 13 | Original date of issuance | According to tranche | According to tranche | 14-Dec-2007 | According to tranche | According to tranche | According to tranche | According to tranche |
| 14 | Perpetual or dated | Perpetual | Perpetual | Perpetual | Dated | Dated | Dated | Dated |
| 15 | Original maturity date | N/A | N/A | N/A | 31-Mar-2026 | 09-May-2032 | 31-Dec-2032 | 31-Dec-2032 |
| 16 | Repayment option | Subject to prior PRA approval | Subject to prior PRA approval | Subject to prior PRA approval (not within 5 years and 1 day of Advance) | Subject to prior PRA approval (not within 5 years and 1 day of Advance) | Subject to prior PRA approval (not within 5 years and 1 day of Advance) | Subject to prior PRA approval (not within 5 years and 1 day of Advance) | Subject to prior PRA approval (not within 5 years and 1 day of Advance) |
| Coupons | | | | | | | | |
| 17 | Fixed or floating dividend/coupon | Floating | Floating | Floating | Floating | Floating | Floating | Floating |
| 18 | Coupon rate and any related index | USD 3-month Libor + 150bps | USD 3-month Libor + 139bps | USD 3-month Libor + 255bps | USD 3-month Libor + 75bps | USD 3-month Libor + 70bps | USD 3-month Libor + 80.9bps | USD 3-month Libor + 290bps |
| 19 | Optional Deferral | Yes, indefinitely, subject to arrears pusher - ordinary shares | Yes, indefinitely, subject to arrears pusher - ordinary shares | Yes, indefinitely, subject to arrears pusher - ordinary shares | None | None | None | None |
| 20 | Existence of step-up or other incentive to redeem | No | No | No | No | No | No | No |
| 21 | Convertible or non-convertible | Non-convertible | Non-convertible | Non-convertible | Non-convertible | Non-convertible | Non-convertible | Non-convertible |
| 22 | Non-compliant transitional features | No | No | No | No | No | No | No |

Credit Suisse International – Tier 2 instruments as at 31 December 2014 (page 2/2)

| No. | Term | Tier 2 instruments | | | | | Total |
|-----------------------------|--|---|---|--|---|---|------------------|
| 1 | Date of Agreement | 28-Mar-2008 | 04-Apr-2008 | 27-Mar-2013 | 26-Jun-2013 | 11-Feb-1998 | |
| 2 | Issuer/Lender | CSFB (Cayman) Ltd | CSFB (Cayman) Ltd | DLJ UK Holding | Credit Suisse AG | Market Issuance | |
| 3 | Governing Law | English | English | English | English | English | |
| Regulatory treatment | | | | | | | |
| 4 | Transitional CRR Rules | Tier 2 | Tier 2 | Tier 2 | Tier 2 | Tier 2 | |
| 5 | Post-transitional CRR Rules | Tier 2 | Tier 2 | Tier 2 | Tier 2 | Tier 2 | |
| 6 | Eligible at solo and / or consolidated basis? | Solo | Solo | Solo | Solo | Solo | |
| 7 | Instrument type | Subordinated debt | Subordinated debt | Subordinated debt | Subordinated debt | Subordinated debt | |
| 8 | Amount recognised in regulatory capital as at 31 December 2014 (million) | \$0.1 | \$0.1 | \$1,524.8 | \$1,100.0 | \$11.4 | \$7,987.6 |
| 9 | Nominal amount of instrument (million) | \$0.1 | \$0.1 | \$1,524.8 | \$1,100.0 | DM30.0 | |
| 10 | Issue price | Par | Par | Par | Par | Par | |
| 11 | Redemption price | Par | Par | Par | Par | Par | |
| 12 | Accounting classification | Liability - amortised cost | Liability - amortised cost | Liability - amortised cost | Liability - amortised cost | Liability - amortised cost | |
| 13 | Original date of issuance | 28-Mar-2008 | 04-Apr-2008 | 05-Apr-2013 | 27-Jun-2013 | 16-Feb-1998 | |
| 14 | Perpetual or dated | Dated | Dated | Dated | Dated | Dated | |
| 15 | Original maturity date | 15-Mar-2038 | 15-Mar-2038 | 05-Apr-2023 | 27-Jun-2023 | 16-Feb-2018 | |
| 16 | Repayment option | Subject to prior PRA approval (not within 5 years and 1 day of Advance) | Subject to prior PRA approval (not within 5 years and 1 day of Advance) | Subject to prior PRA approval (not within 5 years of drawdown date - regulatory or tax call) | Subject to prior PRA approval (not before 27 June 2018. Regulatory call and tax call) | Subject to prior PRA approval (tax call only) | |
| Coupons | | | | | | | |
| 17 | Fixed or floating dividend/coupon | Fixed | Fixed | Floating | Floating | Fixed | |
| 18 | Coupon rate and any related index | 8.6% Fixed Rate | 8.6% Fixed Rate | USD 3-month Libor + 262bps | USD 3-month Libor + 300bps | 6.0% Fixed Rate | |
| 19 | Optional Deferral | None | None | None | None | None | |
| 20 | Existence of step-up or other incentive to redeem | No | No | No | No | No | |
| 21 | Convertible or non-convertible | Non-convertible | Non-convertible | Non-convertible | Non-convertible | Non-convertible | |
| 22 | Non-compliant transitional features | No | No | No | No | No | |

Appendix 2: Directorships

CSi's Board Members hold the following number of directorships as at 30 March 2015:

| Directorships | CS group (including CSi) | External | Total |
|----------------------|--------------------------------|----------|--------------|
| G de Boissard | 4 | 0 | 4 |
| N Doyle | 4 | 2 | 6 |
| J Forrester | 2 | 0 | 2 |
| P Ingram | 2 | 0 | 2 |
| S Kingsley | 2 | 1 | 3 |
| R Thornburgh | 4 | 5 | 9 |

All Board Members of CSi are also directors of Credit Suisse Securities (Europe) Limited.

Appendix 3: List of abbreviations and glossary

| Term | Definition |
|-----------------------|--|
| A | |
| ABS | <i>Asset-backed security.</i> |
| AIRB | <i>Advanced Internal Ratings-Based: the AIRB Approach is a method of deriving risk weights using internally assessed, rather than supervisory, estimates of risk parameters (eg. for PD, LGD).</i> |
| AT1 | <i>Additional Tier 1 capital: a form of capital eligible for inclusion in Tier 1, but outside the definition of CET1.</i> |
| B | |
| Banking Book | Classification of assets outside the definition of Trading Book (also referred to as the 'Non-Trading Book'). |
| BCBS | <i>Basel Committee on Banking Supervision.</i> |
| C | |
| CCB | <i>Countercyclical capital buffer: prescribed under Basel III and CRDIV and aims to ensure that capital requirements mitigate potential future losses arising from excess credit growth and hence increased system-wide risk.</i> |
| CCF | <i>Credit conversion factor: represents an estimate of undrawn commitments drawn down at the point of default.</i> |
| CCP | <i>Central counterparty.</i> |
| CCR | <i>Counterparty credit risk.</i> |
| CCRM TM | <i>Counterparty credit risk mark-to-market method: a regulatory prescribed method for calculating exposure values in respect of counterparty credit risk.</i> |
| CDO | <i>Collateralised debt obligation.</i> |
| CET1 | <i>Common Equity Tier 1: the highest quality level of regulatory capital prescribed under Basel III (and by CRD IV in the EU).</i> |
| CET 1 ratio | CET1 expressed as a percentage of RWAs. |
| CQS | <i>Credit quality step: a supervisory credit quality assessment scale, based on the credit ratings of ECAIs, and used to assign risk weights under the Standardised Approach.</i> |
| CRD | <i>Capital Requirements Directive: EU legislation implementing Basel III (and previously Basel II) in the EU.</i> |
| CRR | <i>Capital Requirements Regulation: EU legislation implementing Basel III in the EU.</i> |
| CVA | <i>Credit valuation adjustment: a capital charge under Basel III (CRD IV) covering the risk of mark-to-market losses on expected counterparty risk on derivative exposure arising from deterioration in a counterparty's credit worthiness.</i> |
| E | |
| EAD | <i>Exposure at default: the net exposure prior to taking account of any credit risk mitigation at the point of default.</i> |
| EBITDA | <i>Earnings before interest, taxation, depreciation and amortisation.</i> |
| ECAI | <i>External Credit Assessment Institutions.</i> |
| Expected loss | The downturn loss on any exposure during a 12-month time horizon calculated by multiplying EAD by PD and LGD. |
| F | |
| FLP | <i>Fund-linked product.</i> |
| I | |
| ICAAP | <i>Internal capital adequacy assessment process: a risk-based assessment of the level of regulatory capital to be held by a bank or firm. This may exceed the Pillar 1 capital requirement.</i> |
| IFRS | <i>International Financial Reporting Standards.</i> |
| IMA | <i>Internal Models Approach: used in the calculation of market risk capital requirements.</i> |
| IMM | <i>Internal Model Method: used in the calculation of counterparty risk exposure.</i> |
| IRC | <i>Incremental risk charge: a capital add-on to VAR calculated in respect of the potential for direct loss due to an internal or external rating downgrade (or upgrade) as well as the potential for indirect losses arising from a credit mitigation event.</i> |
| ISDA | <i>International Swaps and Derivatives Association.</i> |
| ISDA master agreement | Standardised contract developed by ISDA to facilitate bilateral derivatives trading. |

| Term | Definition |
|--------------------------|---|
| L | |
| Leverage ratio | A calculation prescribed under Basel III (and CRDIV) to measure the ratio of total exposures to available Tier 1 capital. |
| LGD | <i>Loss given default</i> : the estimated ratio of loss to the amount outstanding at default (EAD) as a result of any counterparty default. |
| M | |
| Master netting agreement | An agreement between two counterparties who have multiple contracts with each other that provides for the net settlement of all contracts in the event of default on, or termination of any one contract. |
| P | |
| PD | <i>Probability of default</i> : is the probability of an obligor defaulting within a one-year horizon. |
| PFCE | <i>Potential future credit exposure</i> . |
| Pillar 1 | Minimum regulatory capital requirements to be held by a bank or investment firm as prescribed by Basel III (and CRDIV). |
| Pillar 2 | Regulator imposed risk-based capital requirements to be held in excess of Pillar 1. |
| Pillar 3 | CRDIV prescribed capital, risk and remuneration disclosure requirements. |
| PRA | <i>Prudential Regulation Authority</i> . |
| R | |
| RBA | <i>Ratings-Based Approach</i> : an AIRB approach to securitisations using risk weights derived from ECAI ratings. |
| RCSA | <i>Risk and control self-assessment</i> . |
| RFDAR | <i>Risk and Finance Data and Reporting</i> . |
| RNIV | <i>Risks not in VaR</i> . |
| RWA | <i>Risk-weighted asset</i> : derived by assigning risk weights to an exposure value. |
| S | |
| SFA | <i>Supervisory Formula Approach</i> . |
| SFT | <i>Securities financing transaction</i> : lending or borrowing of securities (or other financial instruments), a repurchase or reverse repurchase transaction, or a buy-sell back or sell-buy back transaction. |
| SME | <i>Small and medium-sized enterprise</i> . |
| SRB | <i>Systemic risk buffer</i> : a capital buffer under CRDIV deployed by EU member states to reduce build-up of macro-prudential risk. |
| SREP | <i>Supervisory Review and Evaluation Process</i> . |
| Stressed VaR | A market risk capital charge derived from potential market movements applied over a continuous one-year period of stress to a trading book portfolio. |
| T | |
| Tier 1 capital | A component of regulatory capital, comprising CET1 and AT1 capital. |
| Tier 1 capital ratio | The ratio of Tier 1 capital to total RWAs. |
| Tier 2 capital | A lower quality of capital (with respect to 'loss absorbency') also known as 'gone concern' capital. |
| Trading Book | Positions held with intent to trade or to hedge other items in the Trading Book. |
| U | |
| UK IB RMC | <i>UK Investment Bank Risk Management Committee</i> . |
| V | |
| VaR | <i>Value-at-risk</i> : loss estimate from adverse market movements over a specified time horizon and confidence level. |
| W | |
| WWR | <i>Wrong-way risk</i> : risk exposure to a counterparty is adversely correlated with a counterparty's credit quality. |

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Cautionary statement regarding forward-looking information

Pillar 3 disclosures contain statements that constitute forward-looking statements. In addition, in the future Credit Suisse may make statements that constitute forward-looking statements. Such forward-looking statements may include, without limitation, statements relating to the following:

- plans, objectives or goals;
- future economic performance or prospects;
- the potential effect on future performance of certain contingencies; and
- assumptions underlying any such statements.

Words such as "believes," "anticipates," "expects," "intends" and "plans" and similar expressions are intended to identify forward-looking statements but are not the exclusive means of identifying such statements. Credit Suisse does not intend to update these forward-looking statements except as may be required by applicable securities laws.

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- the ability to maintain sufficient liquidity and access capital markets;
- market and interest rate fluctuations and interest rate levels;
- the strength of the global economy in general and the strength of the economies of the countries in which Credit Suisse conducts operations, in particular the risk of continued slow economic recovery or downturn in the US or other developed countries in 2015 and beyond;
- the direct and indirect impacts of deterioration or slow recovery in residential and commercial real estate markets;
- adverse rating actions by credit rating agencies in respect of sovereign issuers, structured credit products or other credit-related exposures;
- the ability to achieve strategic objectives, including improved performance, reduced risks, lower costs and more efficient use of capital;
- the ability of counterparties to meet their obligations to Credit Suisse;
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- the possibility of foreign exchange controls, expropriation, nationalisation or confiscation of assets in countries in which Credit Suisse conducts operations;
- operational factors such as systems failure, human error, or the failure to implement procedures properly;
- actions taken by regulators with respect to business and practices in one or more of the countries in which Credit Suisse conducts operations;
- the effects of changes in laws, regulations or accounting policies or practices;
- competition in geographic and business areas in which Credit Suisse conducts operations;
- the ability to retain and recruit qualified personnel;
- the ability to maintain Credit Suisse's reputation and promote its brand;
- the ability to increase market share and control expenses;
- technological changes;
- the timely development and acceptance of new products and services and the perceived overall value of these products and services by users;
- acquisitions, including the ability to integrate acquired businesses successfully, and divestitures, including the ability to sell non-core assets;
- the adverse resolution of litigation and other contingencies;
- the ability to achieve cost efficiency goals and cost targets; and
- Credit Suisse's success at managing the risks involved in the foregoing.

The foregoing list of important factors is not exclusive.



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