

**Basel II
Pillar 3 – UK disclosures
2013**

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2013

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Overview

This document contains Pillar 3 disclosures required under Basel II in relation to the following UK entities within the Credit Suisse group:

- Credit Suisse International;
- Credit Suisse Securities (Europe) Limited;
- Credit Suisse (UK) Limited; and
- Credit Suisse Asset Management Limited.

The scope of the disclosures is described in the relevant sections of the document.

Credit Suisse International

INTRODUCTION

This section comprises the Pillar 3 disclosures of Credit Suisse International ('CSI' or 'the Bank') as at 31 December 2013. The primary purpose of this section is to meet the regulatory disclosure requirements under the rules of the Prudential Regulation Authority ('PRA') as set out in BIPRU, the Prudential Sourcebook for Banks and Investment Firms.

Additional relevant information is contained in CSI's Annual Report 2013 which may be found on the Credit Suisse website at: www.credit-suisse.com

Basis of disclosures

Under a waiver agreed with the FSA (now PRA) in December 2011, certain of the Pillar 3 disclosures required by the UK implementation of Basel II were disapplied in the case of Credit Suisse International ('CSI' or 'the Bank') as a stand-alone entity on the basis that they were included in the comparable disclosures provided on a consolidated basis by Credit Suisse group (available at www.credit-suisse.com). Following a change in the group structure in late 2013, CSI became ineligible for the Pillar 3 waiver and, accordingly, this section contains full disclosures for CSI as at 31 December 2013.

Basis of consolidation

CSI prepares IFRS financial statements on a consolidated basis, including two subsidiaries. For the purposes of regulatory capital, these subsidiaries were treated on a 'solo consolidated' basis as at 31 December 2013. The carrying value of these subsidiaries as disclosed in the IFRS financial statements as at 31 December 2013 was \$10m and the amount of reserves relating to these subsidiaries that was taken into CSI's capital resources on a solo consolidated basis was a loss amounting to \$13m.

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 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. 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 the 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 centre of the review that the PRA conducts when determining an institution's required level of regulatory capital (the Supervisory Review and Evaluation Process, or SREP).

Capital resources

Capital Resources (USD million)		
As at 31 December	2013	2012
Tier 1 capital resources, comprising:	24,632	15,071
Permanent share capital	13,108	3,108
Share premium	12,699	12,699
Reserves	(742)	(271)
Regulatory deductions (intangible assets)	(433)	(465)
Tier 2 capital resources, comprising:	8,081	7,006
Upper Tier 2 – perpetual subordinated debt	2,508	2,507
Lower Tier 2 – long-term subordinated debt	5,573	4,499
Total Tier 1 and 2 capital resources	32,713	22,077
Deductions from Tiers 1 and 2, comprising:	(33)	(35)
Securitisation positions	(33)	0
Investments that are not material holdings or qualifying holdings	0	(35)
Capital Resources	32,680	22,042

Permanent share capital comprises Ordinary Shares and Participating Shares. The Ordinary Shares carry voting rights but do not carry the right to receive dividends. The Participating Shares do not carry voting rights but carry the right to receive dividends. In all other respects the Participating Shares and Ordinary Shares rank pari passu.

Capital resources requirement

Capital Resources Requirement (USD million)		
As at 31 December	2013	2012
Trading Book market risk	1,807	2,523
Counterparty risk – Trading Book	2,930	2,753
Credit risk – Banking Book	1,272	1,514
Concentration risk	0	328
Operational risk – Basic Indicator Approach	267	269
Pillar 1 Capital Resources Requirement	6,276	7,387

RISK MANAGEMENT

Overview

The Bank's risk management framework is based on transparency, management accountability and independent oversight. Risk management plays an important role in the Bank'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 the Bank's financial strength and reputation, while ensuring that capital is well deployed to support business activities and grow shareholder value. The Bank 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 risks, and managing concentrations of risks.

Risk governance

The prudent taking of risk in line with the Bank's strategic priorities is fundamental to its business as part of a leading global banking group. To meet the challenges in a fast changing industry with new market players and innovative and complex products, the Bank seeks to continuously strengthen the risk function, which is independent of, but closely interacts with, the businesses, to ensure the appropriate flow of information.

The Board of Directors set the overall framework for risk appetite and has delegated authority to establish more granular limits within the bounds of its overall risk limits to a UK Investment Banking Risk Management Committee ('UKIBRMC'), which is chaired by the Bank's Chief Risk Officer ('CRO') and consists of senior risk and business managers. The purpose of the UKIBRMC is to:

- ensure that proper standards for risk oversight and management are established;
- define and implement a risk appetite framework covering, inter alia, market, credit and operational risks and make recommendations to the Board of Directors on risk appetite;
- review the ICAAP and make recommendations on capital to the Board of Directors;
- allocate risk capital and establish risk limits for individual businesses within authorities delegated by the Board of Directors; and
- review the risk portfolio, set and approve limits and ceilings and other appropriate measures to monitor and manage the risk portfolio for the Bank.

Risk organisation

Risks arise in all of the Bank's business activities and cannot be completely eliminated, but they are monitored and managed through its internal control environment. The Bank's risk management organisation reflects the specific nature of the various risks in order to ensure that risks are taken within limits set in a transparent and timely manner.

The Bank's independent risk management function is headed by the Bank's CRO, who reports jointly to the Bank's CEO and the CRO of CS group. The CRO is responsible for overseeing the Bank's risk profile across all risk types and for ensuring that there is an adequate independent risk management function. The Bank has strengthened the risk management function to provide a more dedicated focus on the risks at the Bank level, in addition to the global risk management processes applied by CS group.

The risk management function is responsible for providing oversight and establishing a framework to monitor and manage all risk matters through four primary risk departments: Strategic Risk Management ('SRM') assesses the Bank's overall risk profile on a strategic basis, recommending corrective action where necessary, and is also responsible for market risk management including measurement and limits; Risk Analytics and Reporting ('RAR') is responsible for reporting, risk model validation, systems implementation and policies; Credit Risk Management ('CRM'), which includes the Credit Analytics department, is responsible for developing and administering credit policies and procedures, risk analytics, approving credit limits, monitoring and managing individual exposures and assessing and managing the quality of credit portfolios and allowances; and Operational Risk Management ('ORM') is responsible for establishing a framework for managing operational risks including ensuring that operational risk policies are consistently implemented and helping to understand, assess, and mitigate operational risks. The risk management function also addresses critical risk areas such as business continuity, technology risk and reputational risk management.

Committees are implemented at a senior management level to support risk management. The Reputational Risk and Sustainability Committee sets policies and reviews processes and significant cases relating to reputational risks. The Risk Processes and Standards Committee ('RPSC') is responsible for establishing and approving standards regarding risk management and risk measurement, including methodology and parameters, for all CS group entities, including the Bank. The Credit Portfolio and Provisions Review Committee review the quality of the credit portfolio with a focus on the development of impaired assets and the assessment of related provisions and valuation allowances.

Risk limits

A sound system of risk limits is fundamental to effective risk management. The limits define CSi's maximum risk appetite given management capabilities, the market environment, business strategy and financial resources available to absorb potential losses. The overall risk limits for the Bank are set by the Board of Directors and are binding.

Within the bounds of the overall risk appetite of the Bank, as defined by the limits set by the Board, the UKIBRMC and CRO are responsible for setting specific limits deemed necessary to manage the concentration of risk within individual lines of business and across counterparties. The Bank has a range of more granular limits for individual businesses, concentrations and specific risks, including limits on transactions booked from remote locations.

Market risk limit measures are typically based on Value at Risk ('VaR'), though they could also include exposure, risk sensitivity and scenario analysis. Credit risk limits include overall limits on portfolio credit quality and a system of individual counterparty credit limits used to mitigate concentration risks. These risk limits are binding and generally set to ensure that any meaningful increase in risk exposures is promptly escalated to more senior levels of management. In addition, the Bank has allocated operational risk capital to the businesses and has established thresholds for operational risk losses that trigger additional management action.

The majority of these limits are monitored on a daily basis, though those for which the inherent calculation time is longer (e.g. credit portfolio limits) are monitored on a weekly or monthly basis.

The Bank's financial risk management objectives and policies and the exposure of CSi to market risk, credit risk, liquidity risk and currency risk are outlined in the CSi Annual Report 2013, Note 39 – Financial Instruments Risk Positions.

CREDIT RISK[Overview](#)

For regulatory purposes, exposures to borrowers or counterparties are categorised into asset classes according to the framework set out in the PRA Prudential Sourcebook.

The significant majority of credit and counterparty risk capital requirements are calculated using the Advanced Internal Ratings Based Approach ('AIRB'). The remainder, for example, settlement risk, is calculated using the Supervisory Approach also described in the PRA Prudential Sourcebook.

The Pillar 1 capital requirement for credit and counterparty risk arising in the Banking Book and Trading Book at the period end is further broken down by IRB asset class as follows:

Credit risk AIRB capital requirement – analysed by asset class (USD million)

As at 31 December 2013			
	Banking Book	Trading Book	Total
Sovereigns	217	272	489
Institutions	105	1,317	1,422
Corporates	894	1,341	2,235
Equity	7	0	7
Securitisation	49	0	49
Total	1,272	2,930	4,202

[Credit exposures, risk-weighted assets and capital requirements](#)

The following tables represent analyses of exposures, risk-weighted assets ('RWAs') and capital requirements.

Credit risk exposure – analysed by asset class (USD million)

As at 31 December 2013				
IRB advanced approach	Exposure	Average exposure	RWAs	Capital Requirement
Sovereigns	12,926	12,872	6,109	489
Institutions	37,035	36,795	17,769	1,422
Corporates	56,787	63,803	27,981	2,235
Equity	25	66	93	7
Securitisation	1,470	1,520	607	49
Total	108,243	115,056	52,559	4,202

Credit risk exposure – analysed by geographical region (USD million)

As at 31 December 2013					
IRB advanced approach	UK	EMEA	Americas	Asia Pacific	Total
Sovereigns	91	12,533	95	207	12,926
Institutions	8,461	15,026	9,619	3,929	37,035
Corporates	6,783	23,382	25,124	1,498	56,787
Equity	0	20	3	2	25
Securitisation	55	1,186	229	0	1,470
Total	15,390	52,147	35,070	5,636	108,243

Credit risk exposure – analysed by industry sector (USD million)

As at 31 December 2013				
IRB advanced approach	Commercial	Financial	Public Authorities	Total
Sovereigns	471	94	12,361	12,926
Institutions	0	34,095	2,940	37,035
Corporates	20,086	33,788	2,913	56,787
Equity	5	20	0	25
Securitisation	0	1,470	0	1,470
Total	20,562	69,467	18,214	108,243

Credit risk exposure – analysed by residual maturity (USD million)

As at 31 December 2013				
IRB advanced approach	Up to 12 months	1 - 5 years	Greater than 5 years	Total
Sovereigns	355	11,558	1,013	12,926
Institutions	9,810	9,375	17,850	37,035
Corporates	18,098	24,506	14,183	56,787
Equity	7	12	6	25
Securitisation	0	0	1,470	1,470
Total	28,270	45,451	34,522	108,243

For specialised lending exposures within the corporate asset class, internal rating grades are mapped to one of five supervisory categories, associated with a specific risk weight. Exposures falling within this category at the period end are broken down as follows:

Corporate exposures – specialised lending (slotting approach) (USD million)

As at 31 December 2013			
Category	Period	Exposure	Exposure-weighted average risk weight
Category 1 (Strong)	Less than 2.5 years	0	0
	Equal or more than 2.5 years	0	0
Category 2 (Good)	Less than 2.5 years	0	0
	Equal or more than 2.5 years	0	0
Category 3 (Satisfactory)	Less than 2.5 years	0	0
	Equal or more than 2.5 years	0	0
Category 4 (Weak)	Less than 2.5 years	0	0
	Equal or more than 2.5 years	0	0
Category 5 (Default)	Less than 2.5 years	1,043	0
	Equal or more than 2.5 years	0	0

The majority of CSi's loan exposures are accounted for on a fair value basis: the balance sheet amount of these loans was \$10.4bn at 31 December 2013. Other loans are accrual accounted, and the balance sheet amount of these loans was \$4.5bn at 31 December 2013. CSi's accounting policies relating to impairment can be found in the Annual Report 2013, pages 35 and 45 (Significant Accounting Policies). Information on impairment losses can be found in Note 17 on pages 56 and 57.

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 (e.g. interest rates and foreign exchange rates), which can be volatile and uncertain in nature. The Bank 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.

The BIPRU framework permits banks to choose between using the Internal Model Method ('IMM') and the regulatory prescribed standard rules approaches to compute their expected exposure to a counterparty upon its potential default (the 'exposure at default' or 'EAD'). Banks wishing to use IMM models for this purpose must have received regulatory permission to do so. The

Bank received approval from the FSA (now PRA) to use, and has implemented, the IMM approach to calculate EAD for OTC derivatives counterparties. As of 31 December 2013, most of the counterparty credit risk derivatives portfolio is capitalised using IMM models, with the remainder of trades falling under the CCR Mark to Market Method. From January 2014, as prescribed in its IMM permission, the Bank calculates EAD for credit derivatives and central counterparty exposures using the CCR Mark to Market Method. The IMM and CCR Mark to Market Methods take into account potential future movements and as a result generate exposures that are greater than the net replacement values for balance sheet purposes.

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

Net derivatives credit exposure (USD million)

As at 31 December 2013	
Gross positive fair value of contracts ⁽ⁱ⁾	42,356
Netting benefits	(27,279)
Netted current credit exposure	15,077
Collateral held	(4,600)
Net derivatives credit exposure	10,477

(i) including Gross PFCE

Credit risk and counterparty credit risk – analysed by CCR Method and exposure class (USD million)

As at 31 December 2013						
	CCR Internal Model Method		CCR Mark to Market Method		Total	
IRB advanced approach	Exposure value	RWAs	Exposure value	RWAs	Exposure value	RWAs
Sovereigns	6,882	3,396	6,044	2,713	12,926	6,109
Institutions	22,333	12,455	14,702	5,314	37,035	17,769
Corporates	28,349	16,792	28,438	11,189	56,787	27,981
Equity	0	0	25	93	25	93
Securitisation	0	0	1,470	607	1,470	607
Total	57,564	32,643	50,679	19,916	108,243	52,559

Counterparty credit risk – credit derivatives (USD million)

As at 31 December 2013			
	Protection bought	Protection sold	Total
Credit default swaps	694,955	612,520	1,307,475
Total credit derivative notional value	694,955	612,520	1,307,475

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.

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 Credit Suisse ratings downgrade is monitored. Collateral triggers are maintained by the Collateral Management department and vary by counterparty.

The impact of downgrades of the Bank's long-term debt ratings is considered in the stress assumptions used to determine the conservative funding profile of the balance sheet and would not be material to the Bank's liquidity and funding needs.

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 the Bank'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 (e.g. level of collateral). All credit exposure is approved, either by approval of an individual transaction or facility (e.g. lending facilities), or under a system of credit limits (e.g. 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 our 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, various risk management committees, and Investor Relations, as well as external stakeholders such as regulators and rating agencies.

The Bank's credit exposures are captured in the '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: 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 Financial Accounting 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 rated single-A and above, that are active providers of risk mitigation to CS on a global basis. The providers of CDS contracts for risk mitigation are mainly investment grade rated international banks. The portfolio of counterparty banks is very diverse, reflecting our 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 the Pillar 2A ICAAP assessment. The amount of credit risk arising from the concentration to protection provider is considered not to be material.

Credit risk mitigation (USD million)

As at 31 December 2013		
IRB advanced approach	Exposure value covered by credit derivatives or guarantees	Exposure
Sovereigns	2,009	12,926
Institutions	474	37,035
Corporates	2,173	56,787
Equity	0	25
Securitisation	0	1,470
Total	4,656	108,243

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 for the business, in addition to the liquidity issues involved in running a large portfolio of collateral assets and liabilities. The Bank's strategy with respect to collateral is subject to a robust collateral policy, which details standards of acceptable collateral (including collateral type, liquidity, quality, 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 stable collateral types. The majority of the Bank'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 our 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 firm 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.

Netting

Credit risk mitigation processes under the IRB approach includes on- and off-balance sheet netting and utilising eligible collateral, as defined under the IRB approach.

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 International Swaps and Derivatives Association (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 under the agreement.

Reverse repurchase and repurchase agreements are generally covered by global master repurchase agreements with netting terms similar to ISDA Master Agreements. Securities lending and borrowing transactions are generally executed under global master securities lending agreements with netting terms 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, our 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 the Bank'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 both 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 applied 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 Risk Analytics and Reporting. 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 e.g. 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 asset class, the internal ratings-based ('IRB') Approach or the Standardised Approach. Under the IRB Approach, risk weights are determined by using internal models and risk parameters. The Bank received approval from the FSA (now PRA) to use, and has fully implemented, the Advanced Internal Ratings-based ('AIRB') Approach whereby internal estimates for probability of default ('PD') and loss given default ('LGD') are used when calculating the capital requirements for credit risk. As prescribed in its IRB permission, the Bank calculates the credit risk capital requirement for equity exposures using the Simple Risk Weight Approach.

Portfolios subject to PD and LGD approach

Credit exposures by rating under PD/LGD approach (USD million)

2013				
EAD ⁽¹⁾	Average Exposure	Exposure-weighted average LGD	Exposure-weighted average risk-weight ⁽²⁾	Average undrawn commitments
SOVEREIGNS				
AAA	1,228	53.3%	17.3%	0
AA	750	56.1%	10.7%	0
A	60	100.0%	20.0%	0
BBB	9,028	55.9%	45.9%	1
BB	649	92.1%	55.8%	4
B or lower	1,157	79.9%	108.4%	0
Unrated	0	0.0%	0.0%	0
Default (net of specific provisions)	0	0.0%	0.0%	0
Total Sovereigns	12,872	59.9%	47.1%	5
INSTITUTIONS				
AAA	1,335	53.7%	27.5%	0
AA	5,625	53.7%	36.1%	60
A	22,943	55.6%	34.0%	2
BBB	4,667	61.1%	97.2%	7
BB	1,682	60.9%	90.0%	90
B or lower	526	86.7%	129.1%	2
Unrated	17	47.1%	94.1%	0
Default (net of specific provisions)	0	0.0%	0.0%	0
Total Institutions	36,795	56.7%	46.0%	161
EQUITY				
AAA	0	0.0%	0.0%	0
AA	0	0.0%	0.0%	0
A	59	0.0%	372.9%	0
BBB	3	0.0%	366.7%	0
BB	0	0.0%	0.0%	0
B or lower	4	0.0%	300.0%	0
Unrated	0	0.0%	0.0%	0
Default (net of specific provisions)	0	0.0%	0.0%	0
Total Equity	66	0.0%	368.2%	0
SECURITISATION				
AAA	634	0.0%	8.2%	0
AA	499	0.0%	8.2%	0
A	49	0.0%	8.2%	0
BBB	215	0.0%	74.9%	0
BB	75	0.0%	318.7%	0
B or lower	47	0.0%	821.3%	0
Unrated	0	0.0%	0.0%	0
Default (net of specific provisions)	1	0.0%	0.0%	0
Total Securitisation	1,520	0.0%	58.8%	0
CORPORATES				
AAA	3,933	49.5%	26.4%	784
AA	13,787	53.4%	25.4%	2,082
A	23,385	48.6%	23.7%	2,262
BBB	13,699	51.6%	68.4%	1,222
BB	3,642	56.5%	118.2%	178
B or lower	3,478	57.0%	153.0%	192
Unrated	323	0.0%	0.0%	90
Default (net of specific provisions)	1,556	0.0%	0.0%	30
Total Corporates	63,803	50.5%	47.0%	6,840
Total credit exposure	115,056	52.8%	47.0%	7,006

(1) Calculated before credit risk mitigation.

(2) The exposure-weighted average risk weight in percentage terms is the multiplier applied to regulatory exposures to derive risk-weighted assets.

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 also below). CSi also uses models purchased from recognised data and model providers (e.g. 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. Post 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 opine on 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 have 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 thoroughly 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 the bank and over time. All models whose outputs fall into the scope of the Basel II 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 II 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 weaknesses and 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 the validation process must be remediated within an agreed deadline. The Validation function is independent and has the final say on the content of each validation report.

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 predefined 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 \$2m 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. The Bank 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 asset classes with the exception of sovereigns, 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 the Bank'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. Credit Suisse 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 (i.e. 12 month prior to default). This information is sourced from the Bank'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 definition of default from the Basel definition of default and all are applied in the same way for central banks and sovereigns, 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:

- **Sovereigns 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 should include 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 (e.g. 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 as well as relative to its peers. Peer analysis provides context for the analysis and is required in all reviews unless suitable peers are unavailable. Banks and bank holding companies should generally be 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 the 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:** counterparty analysis should include 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 firm 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 the Bank 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 (e.g. 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. The Bank'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 CCF for loan commitments are inputs to risk-weighted assets calculations. Model outputs are the basis for risk-adjusted-pricing or assignment of credit competency levels.

The internal ratings are also integrated into the Bank'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 UKIBRMC.

To ensure ratings are assigned in a robust and 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 Credit Suisse policies, guidelines, procedures, and documentation checklists.

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

Regulatory expected loss and 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 accrual accounted assets, PD is 100% and LGD is based on an estimate of likely recovery levels for each asset.

Cumulative actual loss comprises two parts: the opening impairment balance and the net specific impairment losses for loans held at amortised cost and actual value charges providing an equivalent impairment measure for both fair value loans and counterparty exposures as if these were 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 consolidated statements of operations.

Cumulative 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. Cumulative actual loss does not include the effects on the impairment balance of amounts written off during the year.

The following table presents the components of the cumulative actual loss:

Cumulative actual loss table (USD million)		
As at 31 December 2013		
	Expected loss (beginning of year)	Cumulative actual loss
Sovereigns	16	0
Securitisations	0	0
Institutions	38	8
Equity	6	0
Corporates	267	3
Total losses	327	11

Credit Model Performance – estimated versus actual PD, LGD and CCF

The following tables present the forecast and actual PD, LGD and EAD CCF for assets under the IRB approach. Estimated values of PD, LGD and CCF reflect probable long-run average values, allowing for possible good and bad outcomes in different years.

Because they represent long-run averages, PD, LGD and CCF shown are not intended to predict outcomes in any particular year, and cannot be regarded as predictions of the corresponding actual reported results.

Analysis of 2013 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
Sovereigns	0.78%	0.00%	0.00%	0.00%	0.00%	0.00%
Institutions	0.66%	0.24%	55.50%	0.00%	0.00%	0.00%
Corporates	1.68%	0.39%	67.80%	32.40%	0.00%	0.00%

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 \$46.2m as at 31 December 2013.

SECURITISATION

Overview

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

A synthetic securitisation is a tranching 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 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 by making markets 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.

To mitigate liquidity risk, specific limits on the size of aged positions are put in place for securitised positions held.

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 appetite framework in relation to securitisations and re-securitisations. These limits will cover exposure measures, risk sensitivities, VaR and capital measures with the majority monitored on a daily basis. In addition within CSI's risk management framework an extensive scenario analysis framework is in place whereby all underlying risk factors are stressed to determine portfolio sensitivity.

Retained Banking Book exposures for mortgage and ABSs 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 risk-weighted exposure amounts

Securities are classified by the nature of the collateral (e.g. commercial mortgages and corporate loans) and the seniority each security has in the capital structure (e.g. 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.

Accounting policies

CSI's accounting policy with respect to special purpose entities is described on page 44 of its 2013 Annual Report.

Trading Book securitisation positions

All Trading Book securitisation positions held (\$33.1m) were deducted from own funds.

Securitised Banking Book Exposures

The following tables detail the amount of exposures securitised by CSI and which were outstanding at 31 December 2013 and securitisation positions held at that date.

Outstanding exposures securitised – Banking Book (USD million)

As at 31 December 2013				
	Sponsor	Other role		Total
		Traditional	Synthetic	
Commercial mortgages	0	5,729	0	5,729
Loans to corporates or SMEs	0	889	0	889
Total	0	6,618	0	6,618

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

2013			
		Traditional	Synthetic
Residential mortgages		1,013	0
Commercial mortgages		349	0
Loans to corporates or SMEs		75	0
Consumer loans		33	0
Total		1,470	0

Regulatory approach

The tables in this section analyse CSi's total EAD and RWAs in respect of securitisation and re-securitisation positions:

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

As at 31 December 2013

	Securitisation exposure		Re-securitisation exposure		Total	
	EAD purchased or retained	Risk-weighted assets	EAD purchased or retained	Risk-weighted assets	EAD purchased or retained	Risk-weighted assets
Ratings-based approach (RBA)	1,316	318	23	18	1,339	336
Supervisory formula approach (SFA)	45	269	86	2	131	271
Total IRB approaches	1,361	587	109	20	1,470	607
Standardised approach	0	0	0	0	0	0
Total	1,361	587	109	20	1,470	607

These totals are further analysed by regulatory approach in the following two tables:

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

As at 31 December 2013

	Securitisation exposure		Re-securitisation exposure		Total	
	EAD purchased or retained	Risk-weighted assets	EAD purchased or retained	Risk-weighted assets	EAD purchased or retained	Risk-weighted assets
AAA	760	56	18	2	778	58
AA	452	38	5	16	457	54
A	3	1	0	0	3	1
BBB	25	15	0	0	25	15
BB	74	187	0	0	74	187
B or lower or unrated	2	21	0	0	2	21
Total	1,316	318	23	18	1,339	336

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

As at 31 December 2013

	Securitisation exposure		Re-securitisation exposure		Total	
	EAD purchased or retained	Risk-weighted assets	EAD purchased or retained	Risk-weighted assets	EAD purchased or retained	Risk-weighted assets
0% - 10%	0	0	0	0	0	0
>10% - 50%	45	269	86	2	131	271
>50% - 100%	0	0	0	0	0	0
>100% - 650%	0	0	0	0	0	0
> 650% - 1250%	0	0	0	0	0	0
Total	45	269	86	2	131	271

Securitised Banking Book Exposures – 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 2013		
	Traditional	
	Sponsor	Originator
Commercial mortgages	0	4
Total	0	4

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

As at 31 December 2013		
	Traditional	
	Sponsor	Originator
Commercial mortgages	0	1,230
Total	0	1,230

MARKET RISK**Overview**

The Bank 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 the Bank level down to specific portfolios. The Bank uses market risk measurement and management methods in line with industry standards. These include general tools capable of calculating comparable exposures across the Bank'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.

The components of the capital requirement for Trading Book market risk are broken down as follows:

Market Risk Capital Requirement (USD million)		
As at 31 December	2013	2012
Capital requirement calculated using VaR	138	215
Stressed VaR	203	242
Capital requirement for Risks Not In VaR ('RNIV')	517	771
Stressed RNIV	460	768
Incremental Risk Charge ('IRC') calculated using approved models	454	399
Interest rate risk on securitisations and tranching risk positions	17	117
Foreign currency risk calculated under standard rules	18	11
Pillar 1 Market Risk capital requirement	1,807	2,523

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 daily trading revenues. Actual daily trading revenues are compared with VaR calculated using a one-day holding period. A back-testing exception occurs when the daily loss exceeds the daily VaR estimate. CSi had five back-testing exceptions in 2013 (2012: one).

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

VaR (USD million)			
2013			
	Regulatory VaR (10-day)	Stressed VaR (10-day)	Incremental risk charge (1-year)
Average	57	79	450
Minimum	26	29	222
Maximum	113	176	602
End of period	38	75	222

The weighted average liquidity horizons by portfolio are included in the table below:

IRC-weighted Average Liquidity Horizon	
As at 31 December 2013	
Sub-portfolio	Months
Equity derivatives	10.2
Prime services	3.5
Equities	6.4
CVA Management	6.0
EMG	4.9
FID Other	3.5
FID Treasury	3.0
Global Credit Products	6.8
Rate Products	4.5
FX Products	3.0
Securitised Products	3.0
Fixed Income	6.0
Equities Non-Strategic	11.5
FID Non-Strategic	8.5
Investment Banking Non-Strategic	8.7
Overall IRC-weighted Average Liquidity Horizon	6.5

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. VaR as a concept is applicable for all financial risk types with valid regular price histories. 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.

The Bank 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. The Bank 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 BIPRU 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, the Bank uses a scaling technique that automatically increases VaR where the short-term market volatility is higher than the long-term volatility in the two-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.

The Bank has approval from the PRA to use its regulatory VaR model in the calculation of Trading Book market risk capital requirements, and the model is subject to regular reviews by that regulator.

The VaR model uses assumptions and estimates that the Bank believes are reasonable, but changes to assumptions or estimates could result in a different VaR measure. As a risk measure, VaR only quantifies the potential loss on a portfolio under normal market conditions. Other risk measures, such as scenario analysis, are used to estimate losses associated with unusually severe market movements. 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, such as increases in volatilities;
- 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 Bank's 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, are available, extreme moves are used. Extreme moves are aggregated assuming a conservative 100% correlation. Risks that are not currently implemented within the Bank'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, the Bank'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, the VaR Governance Steering Committee meets regularly to 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 the Bank's regulatory capital purposes. This classification of assets as Trading Book is done for the purpose of analysing the Bank's market risk exposure under regulatory rules, and does not reflect reporting in the Bank's financial statement. The trading portfolio as determined for risk management purposes primarily includes a majority of the balance sheet 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.

Development of trading portfolio risks

Various techniques are used to assess the accuracy of the regulatory VaR model used for trading portfolios, including back-testing. CSi conducts such back-testing using actual daily trading revenues. Actual daily trading revenues are compared with a regulatory 99% VaR calculated using a one-day holding period. A back-testing exception occurs when a trading loss exceeds the daily VaR estimate.

For capital purposes, PRA, in line with BIPRU requirements, 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 daily trading revenues.

Scenario analysis

Stress testing complements other risk measures by capturing the Bank'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 Bank 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 asset classes.

Stress testing is a fundamental element of the Bank's risk control framework, with results used in risk appetite discussions and strategic business planning, and to support the Bank's 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.

The Bank's stress testing framework is governed through a dedicated steering committee that operates across CS group. Scenarios can be defined with reference to historic events or based on forward-looking, hypothetical events that could impact the Bank'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').

(i) 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, and the VaR model permission is subject to regular reviews by the PRA. 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 are not covered by the VaR model approval. CSi has permission to include credit correlation products in the VaR model for regulatory purposes, but it must also hold capital for these products using the standard rules as set out in the PRA Handbook. Specific Risk VaR Model recognition is not given for asset-backed securities ('ABS'). CSi has permission to include ABS positions in the VaR model for regulatory purposes (capturing both general market and specific risk) but it must also hold capital for specific interest rate risk for these products using standard rules, again, as set out in the PRA Handbook.

(ii) 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, credit default swap ('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 collateralised debt obligations ('CDO's), 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.

Standardised Measurement Method

CSi uses the Standardised Measurement Method ('SMM') which is based on the Ratings-based Approach ('RBA') and the Supervisory Formula Approach ('SFA') for securitisation purposes (see also securitisation risk in the Banking Book) and other supervisory approaches for Trading Book securitisation positions covering the approach for nth-to-default products and portfolios covered by the weighted-average risk weight approach.

Valuation process

The Basel capital adequacy framework and PRA's Prudential Sourcebook 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 CSi Annual Report 2013: Note 2, Significant Accounting Policies section (j) (page 33); Note 3, Critical Accounting Estimates "Fair value" (page 42 to 43); Note 36 "Financial Instruments" (page 92 to 130).

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 and adverse interest rate shifts calibrated to a one-year holding period with a 99% confidence level 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 the Bank'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 Treasury on a portfolio basis within approved limits using appropriate hedging instruments. Credit Suisse's 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.
- **Economic value scenario analysis**: expresses the impact of a pre-defined scenario (e.g. instantaneous changes in interest rates) on a portfolio's fair value. This metric does not rely on statistical inference.

The measures listed above 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.

The CSi banking books do 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.

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

As at 31 December 2013						
	USD	GBP	EUR	CHF	Other	Total USD equivalent
Fair value impact of a one-basis-point parallel increase in yield curves	0.7	(0.1)	0.5	0.0	0.0	1.1

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

As at 31 December 2013						
Basis points movement + / (-)	USD	GBP	EUR	CHF	Other	Total USD equivalent
200	143	(20)	88	(1)	(5)	205
100	75	(10)	45	0	(2)	108
(100)	(78)	10	(10)	(1)	(0)	(79)
(200)	(154)	13	(10)	(3)	(1)	(155)

Credit Suisse Securities (Europe) Limited

INTRODUCTION[Basis of disclosures](#)

Under a waiver agreed with the FSA (now PRA) in December 2011, certain of the Pillar 3 disclosures required by the UK implementation of Basel II need not be made by Credit Suisse Securities (Europe) Limited ('CSSEL' or 'the firm') as a stand-alone entity on the basis that they are included in the comparable disclosures provided on a consolidated basis by Credit Suisse group (these can be found at www.credit-suisse.com). Those Pillar 3 disclosures required under the UK rules that are not covered by the Credit Suisse group disclosures are set out below, together with additional information that provides a wider context.

CAPITAL MANAGEMENT[Capital resources](#)

The following table sets out details of CSSEL's regulatory capital resources:

Capital Resources (USD million)		
As at 31 December	2013	2012
Tier 1 capital resources, comprising:	7,115	7,581
Permanent share capital	2,859	2,859
Share premium	5,661	5,661
Reserves (including AOCI)	(1,395)	(932)
Regulatory deductions (intangible assets)	(10)	(7)
Tier 2 capital resources, comprising:	3,507	3,505
Upper Tier 2 – perpetual subordinated debt	1,500	1,500
Upper Tier 2 – revaluation reserve	24	22
Lower Tier 2 – long-term subordinated debt	1,983	1,983
Total Tier 1 and 2 capital resources	10,622	11,086
Deductions from Tiers 1 and 2, comprising:	(1)	(299)
Excess of expected loss over provisions	(1)	(95)
Securitisation positions	0	(204)
Deductions from Total Capital - free deliveries	(4)	(1)
Capital Resources	10,617	10,786

Permanent share capital comprises Ordinary Shares and Participating Shares. The Ordinary Shares carry voting rights but do not carry the right to receive dividends. The Participating Shares do not carry voting rights but carry the right to receive dividends. In all other respects the Participating Shares and Ordinary Shares rank pari passu.

[Capital resources requirement](#)

The following table sets out details of CSSEL's Pillar 1 capital resources requirement:

Capital Resources Requirement (USD million)		
As at 31 December	2013	2012
Market risk	866	1,581
Counterparty risk (Trading Book)	1,505	2,245
Credit risk (Banking Book)	227	242
Concentration risk	421	1,402
Operational risk – Basic Indicator Approach	306	405
Pillar 1 Capital Resources Requirement	3,325	5,875

MARKET RISK

Trading Book market risk is further broken down as follows:

Market Risk Capital Requirement (USD million)		
As at 31 December	2013	2012
Capital requirement calculated using VaR	130	202
Stressed VaR	235	770
Capital requirement for Risks Not In VaR ('RNIV')	81	104
Stressed RNIV	62	28
Incremental Risk Charge ('IRC') calculated using approved models	319	348
Interest rate risk on securitisations and tranching risk positions	0	68
Foreign currency risk calculated under standard rules	39	61
Pillar 1 Market Risk capital requirement	866	1,581

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

VaR (USD million)			
As at 31 December 2013			
	Regulatory VaR (10-day)	Stressed VaR (10-day)	Incremental risk charge (1-year)
Average	46	222	274
Minimum	25	39	146
Maximum	72	537	438
End of period	40	82	285

Various techniques are used to assess the accuracy of the VaR model used for trading portfolios, including back-testing. In line with industry practice, CSSEL undertakes back-testing using actual daily trading revenues. Actual daily trading revenues are compared with VaR calculated using a one-day holding period. A back-testing exception occurs when the daily loss exceeds the daily VaR estimate. CSSEL had no back-testing exceptions in 2013 (2012: nil).

The Incremental Risk Charge ('IRC') model is required to measure the aggregate risk from the exposure to issuer default and migration risk from positions in our Trading Book. The positions that contribute to IRC are bond positions where CSSEL is exposed to profit or loss on default or rating migration of the bond issuer, credit defaults swaps (CDS) positions where the firm 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. The level of capital assigned by the IRC model to a position in the Trading Book 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 regulatory requirements.

The weighted average liquidity horizons by portfolio are included in the table below:

IRC-weighted Average Liquidity Horizon	
As at 31 December 2013	
Sub-portfolio	Months
Cash equities	7.5
Equity derivatives	11.1
Prime services	5.2
Systematic market making	3.0
Equities	9.4
CVA Management	0.0
EMG	7.9
FID Other	0.0
FID Treasury	0.0
Global Credit Products	8.6
Rate Products	5.3
FX Products	0.0
Securitised Products	0.0
Fixed Income	6.7
Equities Non-Strategic	12.0
FID Non-Strategic	9.3
Investment Banking Non-Strategic	9.4
Overall IRC-weighted Average Liquidity Horizon	7.2

Counterparty risk

Counterparty risk is calculated using the Advanced Internal Ratings Based approach ('AIRB'). The Pillar 1 capital requirement arising in the Trading Book and Banking Book at the period end is further broken down by IRB asset class as follows:

Credit risk and counterparty credit risk – analysed by asset class (USD million)

As at 31 December 2013			
	Banking Book	Trading Book	Total
Sovereigns	25	13	38
Institutions	16	275	291
Corporates	171	578	749
Securitisation	15	0	15
Other	0	639	639
Total	227	1,505	1,732

The Equity exposures calculated under the Simple Risk Weight Approach comprised other equity exposures in the amount of \$0.8 million.

Credit Suisse (UK) Limited

CAPITAL MANAGEMENT

The capital adequacy and capital resources of Credit Suisse (UK) Limited ('CSUK' or the 'Bank') are managed and monitored based on practices developed by the Basel Committee on Banking Supervision (the 'Basel Committee') and governed by European Union directives. These directives are implemented in the UK by the PRA and incorporated within the PRA Prudential Sourcebook.

Capital resources

Regulatory capital resources comprise a number of 'tiers'. Tier 1 capital principally comprises shareholders' equity. This is supplemented by Tier 2 capital, which consists of subordinated debt instruments. Total capital equals the sum of these, less deductions for such items as goodwill and intangible assets.

CSUK's overall capital requirements are continually reviewed to ensure that its capital base can appropriately support the anticipated needs of its businesses. The capital management framework at Credit Suisse is designed to ensure that capital resources are sufficient to support the underlying risks of the business activity, to meet the objectives of management and to meet the requirements of regulators, rating agencies and market participants.

Under the Basel Committee guidelines, an institution must have a ratio of total eligible capital to aggregate risk-weighted assets of at least 8%, although the PRA requires this ratio to exceed the Individual Capital Guidance ('ICG') determined for each institution. The capital resources requirements reflect the credit, market and other risks of the institution calculated using methodologies set out by the PRA.

CSUK must at all times monitor and demonstrate compliance with the relevant regulatory capital requirements of the PRA. CSUK has put in place processes and controls to monitor and manage its capital adequacy, and no breaches were reported to the PRA during the year.

The following table sets out details of CSUK's regulatory capital resources:

Capital Resources (£000s)		
As at 31 December	2013	2012
Tier 1 capital resources, comprising:	120,660	87,763
Permanent share capital	168,230	126,750
Retained earnings	(83,290)	(66,487)
Share premium	11,200	0
Capital contribution reserve	27,500	27,500
Regulatory deductions (intangible assets)	(2,980)	0
Tier 2 capital resources, comprising:	28,059	77,711
Upper Tier 2 – perpetual subordinated debt	25,000	50,000
Upper Tier 2 – revaluation reserve	3,059	2,711
Lower Tier 2 – long-term subordinated debt	0	25,000
Capital Resources	148,719	165,474

Permanent share capital comprises Ordinary Shares carrying voting rights. Further detail is included in CSUK's 2013 Annual Accounts, copies of which can be obtained from Companies House, Crown Way, Cardiff, Wales, CF14 3UZ.

Capital resources requirement

The following table sets out details of CSUK's regulatory capital resources requirement:

Capital Resources Requirement (£000s)		
As at 31 December	2013	2012
Counterparty risk (Trading Book)	937	1,429
Credit risk (Banking Book)	46,123	40,386
Market risk: foreign currency risk	3	13
Operational risk – Basic Indicator Approach	8,499	8,132
Pillar 1 Capital Resources Requirement	55,562	49,960

CREDIT RISK

CSUK uses the Standardised Approach for the calculation of credit risk. CSUK's client base largely comprises individuals, trusts and small corporates. With the exception of balances held with other banks, which are not material, the majority of the Bank's credit exposures are not externally rated. Where exposures are rated, the Bank utilises Standard & Poor's ratings.

The following table sets out details of CSUK's capital requirements and gross credit exposures, analysed by asset class:

Credit risk exposure (£000s)			
2013			
Standardised Approach	Credit Exposure - year-end	Average Credit Exposure for year	Capital Requirement - year-end
Institutions	3,320	3,455	266
Central Governments	330	235	0
Corporates	20,597	24,011	1,648
Retail	7,929	9,346	476
Secured on residential property	750,315	656,849	21,871
Secured on commercial real estate	89,643	82,143	7,171
Short term claims on institutions and corporates	74,578	64,792	5,268
Other	117,791	101,586	9,423
Total	1,064,503	942,417	46,123

The following table sets out a geographical distribution of CSUK's gross credit exposures by asset class:

Credit risk exposure – analysed by geographical region (£000s)				
As at 31 December 2013				
Standardised Approach	UK	EMEA	Other	Total
Institutions	0	3,110	210	3,320
Central Governments	330	0	0	330
Corporates	1,413	11,466	7,718	20,597
Retail	5,128	1,278	1,523	7,929
Secured on residential property	278,155	263,280	208,880	750,315
Secured on commercial real estate	2,783	43,040	43,820	89,643
Short term claims on institutions and corporates	8,527	47,457	18,594	74,578
Other	89,826	27,965	0	117,791
Total	386,162	397,596	280,745	1,064,503

The following table sets out the distribution of CSUK's gross credit exposures by type of client:

Credit risk exposure – analysed by client type (£000s)

As at 31 December 2013				
Standardised Approach	Individuals and Trusts	Corporates	Other	Total
Institutions	0	0	3,320	3,320
Central Governments	0	0	330	330
Corporates	0	20,597	0	20,597
Retail	7,929	0	0	7,929
Secured on residential property	501,590	248,725	0	750,315
Secured on commercial real estate	0	89,643	0	89,643
Short term claims on institutions and corporates	0	74,578	0	74,578
Other	103,866	13,925	0	117,791
Total	613,385	447,468	3,650	1,064,503

The following table sets out an analysis by residual maturity of CSUK's gross credit exposures by asset class:

Credit risk exposure – analysed by residual maturity (£000s)

As at 31 December 2013				
Standardised Approach	Up to 12 months	1 - 5 years	Greater than 5 years	Total
Institutions	3,320	0	0	3,320
Central Governments	330	0	0	330
Corporates	19,987	610	0	20,597
Retail	6,998	931	0	7,929
Secured on residential property	87,453	662,862	0	750,315
Secured on commercial real estate	0	77,612	12,031	89,643
Short term claims on institutions and corporates	74,578	0	0	74,578
Other	101,387	16,404	0	117,791
Total	294,053	758,419	12,031	1,064,503

The following table sets out a counterparty distribution of CSUK's impaired and past due credit exposures, together with provisions and value adjustments:

Impaired and past due credit exposures (£000s)

As at 31 December 2013			
Exposure or provision	Impaired exposures	Past due exposures	Total provisions and value adjustments
Individuals and Trusts	882	0	882
Corporates	96	0	96
Total	978	0	978

The following table sets out a geographic distribution of CSUK's impaired and past due credit exposures, together with provisions and value adjustments:

Impaired and past due credit exposures by geographic distribution (£000s)

As at 31 December 2013			
Exposure or provision	Impaired exposures	Past due exposures	Total provisions and value adjustments
EMEA (non-UK)	978	0	978
Total	978	0	978

The following table sets out changes in provisions and value adjustments during the year:

Changes in provisions and value adjustments during the year (£000s)			
As at 31 December 2013			
	Provisions	Value adjustments	Total
Balance at beginning of period	1,040	0	1,040
Amounts charged to income statement	0	0	0
Amounts written-off	(38)	0	(38)
Recoveries	0	0	0
Foreign currency translation (net)	(24)	0	(24)
Balance at end of period	978	0	978

Remuneration disclosures

Introduction

These disclosures reflect the requirements of BIPRU 11.5.18R in relation to the following:

- Credit Suisse International;
- Credit Suisse Securities (Europe) Limited;
- Credit Suisse (UK) Limited; and
- Credit Suisse Asset Management Limited.

The required qualitative disclosures (implemented in BIPRU 11.5.18 R (1) to (5)) are set out below. The relevant quantitative disclosures (implemented in BIPRU 11.5.18 R (6) and (7)) are set out in the tables in this section.

The CS group is committed to fair, balanced, performance-oriented compensation practices that align long-term employee and shareholder interests. Credit Suisse believes in rewarding employees for performing in a way that creates sustainable value for the Group and its shareholders over time.

The Group's objective is to maintain compensation practices and plans that:

- support a performance culture that is based on merit and differentiates and rewards excellent performance, both in the short and long term, and recognises Credit Suisse values;
- enable Credit Suisse to attract and retain employees and motivate them to achieve results with integrity and fairness;
- balance the mix of fixed and variable compensation to appropriately reflect the value and responsibility of the role performed day-to-day and to influence appropriate behaviours and actions;
- are consistent with and promote effective risk management practices as well as Credit Suisse's compliance and control culture;
- foster teamwork and collaboration across the Group;
- take into account the long-term performance of the Group in order to create sustainable value for shareholders; and
- are reviewed regularly and endorsed by an independent Compensation Committee.

By adopting compensation practices to meet these objectives, Credit Suisse ensures that compensation contributes to the achievement of the CS group's wider objectives in a way that does not encourage excessive risk taking or the violation of applicable laws, guidelines and regulations, taking into account the capital position and economic performance of the Group over the long term.

Decision-making process for determining the compensation policy

Credit Suisse has a single global Compensation Committee, which is the supervisory and governing body for compensation policy, practices and plans within the CS group. The Compensation Committee's Charter is available on the Credit Suisse website at: www.credit-suisse.com/governance

The Compensation Committee consists of at least three independent members of the Board of Directors. The current members are Jean Lanier (chairman), Iris Bohnet, Walter B. Kielholz, and Andreas N. Koopmann. Details of their relevant experience are also available on our website at:

www.credit-suisse.com/governance/en/committee_compensation.jsp

The Compensation Committee meets at least four times per year and is assisted in its work by both external legal counsel and a global compensation consulting firm, Johnson Associates Inc., to ensure that Credit Suisse's compensation program remains competitive, is responsive to regulatory developments and is in line with the compensation policy. Johnson Associates Inc. does not provide any services to the Group other than those it provides to the Compensation Committee.

During 2013, the Compensation Committee held 12 meetings, with the following focus areas:

- assessing the performance of the Group and determining the divisional compensation pools for recommendation to the Board;
- reviewing the level and composition of compensation for Executive Board members and other senior employees, taking into account the key issues raised by shareholders and emerging best practice among peer companies;
- monitoring global regulatory and market trends with respect to compensation at financial institutions and assessing the obligations imposed by the Swiss Ordinance Against Excessive Compensation;
- introducing a new form of deferred compensation award to address shareholder concerns regarding dilution; and
- further enhancing the compensation process for Covered Employees (which includes the Material Risk Taker and Controller ('MRTC') population as well as certain other employees, as defined below) in line with regulatory guidance.

The objectives of the Group's compensation policy include attracting and retaining employees, and motivating them to achieve results with integrity and fairness. The compensation policy is designed to support a performance culture which fosters teamwork and collaboration. Furthermore, it aims to promote effective risk management practices consistent with the Group's compliance and control framework. The compensation policy takes into account the capital position and long-term performance of the Group and balances the fixed and variable compensation components to reflect the value and responsibility of the roles that employees perform. The objectives of the compensation policy are framed to achieve an appropriate balance between the interests of employees and shareholders in order to create sustainable value for the Group.

The compensation policy is reviewed regularly and endorsed by the independent Compensation Committee. The compensation policy, as well as periodic updates and revisions, is approved by the Board of Directors.

A copy of the current compensation policy is available on the Credit Suisse website at: www.credit-suisse.com/compensation

The Group's control functions, including risk management, legal and compliance are involved in the design and review of compensation structures and instruments. With regard to the design of specific long-term plans, multi-disciplined project teams ensure that all aspects of the plan design are tested and critically evaluated before they are put forward to the Group's Compensation Committee for consideration and approval.

Internal Audit also performs annual audits of variable compensation practices, including compliance with the Group's compensation policy as well as external regulatory principles and guidelines.

[Link between pay and performance](#)

Credit Suisse applies a philosophy of ensuring there is a strong link between performance and total compensation. There are two principal components of total compensation, fixed and variable. Credit Suisse also offers various non-cash benefits (such as pension contributions) in order to ensure its overall reward package is competitive.

The individual mix of fixed and variable compensation varies according to the employee's seniority, business and location. All employees are eligible to be considered for an award of discretionary variable compensation. Such awards are made at the discretion of the Group and vary depending on Group, divisional and individual performance, thereby creating a strong link between a significant proportion of pay and performance.

Determination of the performance-based variable compensation pools is an annual process. Appropriate accruals for the divisional and Group-wide variable compensation pools are made by the Group throughout the year. The Board regularly reviews the accruals and related financial information and makes adjustments at its discretion to ensure that the overall size of the pools is consistent with the Group's compensation objectives. An accrual, at the Group or any other level, however, does not create legal rights or entitlements for employees to receive variable compensation.

For the business divisions, the primary measure for determining the variable compensation pool is the division's income before taxes and before the variable compensation accrual, reduced by a charge for capital usage. The methodology to determine the divisional variable compensation pools, however, is not purely formula driven, but instead takes into account divisional key performance indicators and non-financial criteria including risk considerations and relative performance compared to peers.

For Shared Services functions, a deduction is applied to the pool of each division to fund a variable compensation pool for these employees, the total amount of which is based on the Group-wide performance and qualitative measurements rather than the performance of any particular division they support.

The determination of the pools for the business divisions and Shared Services functions also takes into account Group-wide performance, ethics, risk, compliance and control as well as the market and regulatory environment. The final variable compensation pools are reviewed and recommended by the Compensation Committee and approved by the Board.

Once the variable compensation pools have been set at the Group and divisional levels, each division allocates its pool to the various business areas, with the same or similar performance metrics, which are in turn allocated to individual managers. Line managers award variable compensation to individual employees based on individual and business performance, subject to the constraints of the pool available. The Group adopts a performance culture that places a strong emphasis not only on achieving financial performance but also on ethical behaviour, risk management and compliance-centred behaviour. To support this culture, the Group uses a comprehensive performance management system, based on two performance ratings: contribution and competency.

Contribution ratings are typically based on objective criteria, such as having achieved budget targets, or having increased market shares, though they are not limited to financial criteria. Competency standards covering ethics, risk and control form an integral part of the performance management system.

With this approach, variable compensation is not formula driven, but based on financial and non-financial performance metrics including ethics, risk, compliance and control.

A significant proportion of discretionary variable awards are granted in the form of deferred compensation, and for 2013 and 2012 the maximum deferral rate was set at 90%. The deferred awards are subject to future vesting and part or all of the awards

to all Managing Directors and all other employees identified as MRTCs contain provisions that result in cancellation of part or all of the awards based on future performance of the Group or the division in which the individual worked at the time of grant. This ensures that pay is not only linked to the performance in the current year but is also conditional upon sustained future performance.

Design and structure of the compensation system

As set out above, the Group's total compensation approach is based on two separate components: fixed compensation and variable compensation. The Group operates a group-wide deferral policy, under which a portion of variable compensation is deferred once the level of compensation awarded to an individual exceeds Group-wide thresholds. The deferral rates applied to employees in the Investment Bank are generally higher than other divisions. The deferral rates applicable to Remuneration Code Staff are reviewed to ensure that the variable compensation awarded to such employees is subject to deferral of at least 40% or 60%, as required by the Remuneration Code.

The Group's primary deferred compensation plan is the Credit Suisse Group AG Master Share Plan. Deferred compensation instruments under the Share Plan are designed to align the interests of employees with the interests of shareholders. For members of the Executive Board, Managing Directors and other MRTCs, at least 50% of deferred variable compensation for 2013 was delivered in performance share awards, which are subject to a negative adjustment in the event of a divisional loss or a negative underlying ROE of the Group.

At least 50% of deferred variable compensation awarded to Remuneration Code Staff is awarded in Credit Suisse equity. For Managing Directors and Directors in 2013, a portion of the remainder was delivered in Contingent Capital Award ('CCA'). This is essentially a deferred award which has rights and risks similar to those of certain contingent capital instruments issued by the Group in the market, such as the high-trigger contingent capital instruments referred to as contingent convertible instruments ('CoCos'). CCAs have loss-absorbing features such that prior to settlement, the principal amount of the CCAs would be written down to zero and cancelled if any of the following trigger events were to occur:

- The Group's reported Common Equity Tier 1 ('CET1') ratio falls below 7%; or
- FINMA determines that cancellation of the CCAs and other similar contingent capital instruments is necessary, or that the Group requires public sector capital support, in either case to prevent it from becoming insolvent or otherwise failing.

All deferred awards to Remuneration Code Staff, both equity and cash-based, are subject to pre-vesting performance adjustment in the circumstances required by the Remuneration Code.

Fifty percent of the non-deferred portion of any variable compensation awarded to Remuneration Code Staff is also awarded in Credit Suisse equity. All equity awarded to Remuneration Code Staff is subject to a 6-month post-vesting 'retention period', during which it cannot be sold or transferred.

Members of the Executive Board and members of divisional and regional management committees are also subject to a minimum stock ownership requirement, which requires senior management to maintain a personal ownership stake in the Group. This principle is considered important, because it ties some of the personal assets of the executives to the share price performance of the Group.

Aggregate compensation

The following table sets out aggregate compensation expenditures for Code Staff in 2013 and 2012 by Division:

	Investment Banking	Private Banking and Wealth Management	Other ⁽²⁾	Total
2013	315	35	39	389
2012	314	22	40	376

1. Includes fixed compensation and any discretionary variable incentive awards made to Code Staff relating to the respective performance year.
2. Includes all Shared Service functions and Regional Management positions.

Detail of Code Staff and aggregate compensation

The following table sets out compensation expenditure for Code Staff in 2013 and 2012, split between fixed and variable compensation:

As at 31 December	2013			2012		
	Senior Management	Other Code Staff	Total	Senior Management	Other Code Staff	Total
Code Staff						
Number ⁽¹⁾	43	122	165	49	116	165
Aggregate compensation (USD million)	113	276	389	114	262	376
of which fixed compensation ⁽²⁾	25	60	85	25	62	87
of which variable compensation ⁽³⁾	88	216	304	89	200	289
Variable compensation comprises:						
Cash awards ⁽⁴⁾	6	18	24	8	13	21
Restricted stock awards ⁽⁵⁾	5	12	17	4	12	16
Deferred cash-based awards	19	45	64	13	30	43
Deferred share-based awards	58	141	199	64	145	209

1. Includes Asset Management Code Staff to whom the rules relating to remuneration structures in 2013 and 2012 were not applied based on guidance from the PRA/FCA.
2. Fixed compensation includes base salaries, any other cash allowances and any pension or benefits outside of policy paid during the respective performance year.
3. Discretionary variable compensation awards made to Code Staff relating to the respective performance year. Based on value at date of award.
4. For 2012, the cash component of variable compensation granted to managing directors and directors in the Investment Banking division is subject to specific restrictions over a three-year period. These cash awards must be repaid, either in part or in full, if claw-back events, such as voluntary termination of employment or termination for cause, occur. For all other Code Staff employees there were no restrictions on the cash component.
5. Restricted stock awards are part of the non-deferred element of the variable compensation and are subject to a six month retention period. In addition, for managing directors and directors in the Investment Banking division in 2012, there are additional specific restrictions over a three-year period. These awards must be repaid, either in part or in full, if claw-back events, such as voluntary termination of employment or termination for cause, occur.

Deferred compensation

The following table sets out deferred compensation for Code Staff as at 31 December 2013 and 31 December 2012:

Code Staff – deferred compensation (USD million)

As at 31 December	2013			2012		
	Senior Management	Other Code Staff	Total	Senior Management	Other Code Staff	Total
Deferred Compensation						
Outstanding vested ⁽¹⁾	41	208	249	81	238	319
Outstanding unvested ⁽²⁾	154	323	477	179	372	551
Deferred compensation awarded ⁽³⁾	64	130	194	51	135	186
Deferred compensation paid out ⁽⁴⁾	68	164	232	91	154	245
Deferred compensation reduced through performance adjustments	0	0	0	0	0	0

1. Value of outstanding vested awards not yet delivered to Code Staff on 31 December of the respective year, based on the share price as at 31 December of that year.
2. Value of outstanding unvested awards held by Code Staff on 31 December of the respective year, based on the share price as at 31 December of that year.
3. Value of deferred compensation awarded to Code Staff during 2013 and 2012, based on the share price as at 31 December of that year.
4. Actual value delivered to Code Staff during 2013 and 2012 from the vesting of prior years' deferred compensation awards. Based on a share price as at the time of vesting.

Sign-on payments

There were no new sign-on payments made in 2013 to Code Staff (2012: nil).

Severance payments

The following table sets out 2013 and 2012 severance payments to Code Staff:

Code Staff - severance payments

	2013 ⁽¹⁾			2012 ⁽²⁾		
	Senior Management	Other Code Staff	Total	Senior Management	Other Code Staff	Total
Severance payments (USD million)	13	7	20	0	1	1
Number of beneficiaries	4	15	19	1	5	6
Highest individual awards (USD million)	7	1	n/a	0	1	n/a

1. Includes severance payments made in 2013 in respect of individuals who ceased to hold a Code Staff position in 2012.
2. Includes severance payments made in 2012 in respect of individuals who ceased to hold a Code Staff position in 2011.

Note that all values have been converted to USD using the exchange rate on 31 December of the respective performance year, except for values of deferred compensation paid out during the year, which are converted using the prevailing exchange rate at the time of delivery to the individual Code Staff.

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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.

By their very nature, forward-looking statements involve inherent risks and uncertainties, both general and specific, and risks exist that predictions, forecasts, projections and other outcomes described or implied in forward-looking statements will not be achieved. A number of important factors could cause results to differ materially from the plans, objectives, expectations, estimates and intentions expressed in such forward-looking statements. These factors include:

- 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 2014 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;
- the effects of, and changes in, fiscal, monetary, trade and tax policies, and currency fluctuations; political and social developments, including war, civil unrest or terrorist activity;
- 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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