Compensation

Letter from the Chair of the Compensation Committee

Kai S. Nargolwala
Chair of the
Compensation Committee

Dear shareholders

As Chair of the Compensation Committee of the Board of Directors (Compensation Committee), I am pleased to present to you the 2018 Compensation Report. The changes that we introduced last year to the structure and presentation of the report were well received, and we have retained and built on this approach for the 2018 Compensation Report.

Key compensation and performance highlights

For 2018, the Compensation Committee reviewed not only the performance during the year, but also the level of achievement of the three-year restructuring program over the years 2016, 2017 and 2018. When the program was announced in October 2015, there were three main objectives. Firstly, there were some urgent matters to be addressed, namely the capital position, the absolute level of risk, and the cost base. Secondly, the Group defined a strategy to be a leading wealth manager with strong investment banking capabilities for sustainable, compliant and profitable growth. Thirdly, the goal was to significantly upgrade our risk and compliance controls and to improve our culture. Some of the ways in which senior management has successfully addressed these objectives are reflected in the table and charts below, as well as in the following Group performance highlights:

- Achieved first annual post-tax profit since 2014, with CHF 2.02 billion of net income attributable to shareholders;
- Significantly strengthened the Group's capital position, with a look-through common equity tier 1 (CET1) ratio of 12.6% at the end of 2018 compared with 11.4% at the end of 2015, and as demonstrated by the launch of the Group's share buyback program of up to CHF 1.5 billion for 2019;
- Reduced the adjusted operating cost base by CHF 4.6 billion since 2015, exceeding the target of costs below CHF 17 billion for 2018. This protected the Group's returns and profitability as revenues came under pressure in the second half of 2018 due to market conditions;
- Successfully closed the Strategic Resolution Unit and significantly de-risked the Global Markets businesses, which positioned the Group well to weather the widening of credit spreads in the fourth quarter of 2018;
- Rebalanced the Group's activities to shift capital towards the Wealth Management-related and Investment Banking & Capital Markets businesses, which typically generate higher returns and are less volatile; and
- Took a number of steps to improve risk and compliance controls, including increasing our headcount in compliance, decreasing the number of high severity compliance incidents, implementing a single client view, and introducing other measures focused on further enhancing the conduct and ethics culture of the Group.

Key financial and strategic achievements in 2018

	2018	2017	Change	Change
Financial performance (in CHF billion)				
Reported income before taxes	3.4	1.8	+1.6	+88%
Adjusted income before taxes	4.2	2.8	+1.4	+52%
Adjusted net revenues	20.8	20.9	-0.1	0%
of which Wealth Management-related [1]	13.2	12.9	+0.3	+2%
Adjusted operating cost base	16.5	18.0	-1.5	-8%
Net new assets from Wealth Management [2]	34.4	37.2	-2.8	-8%

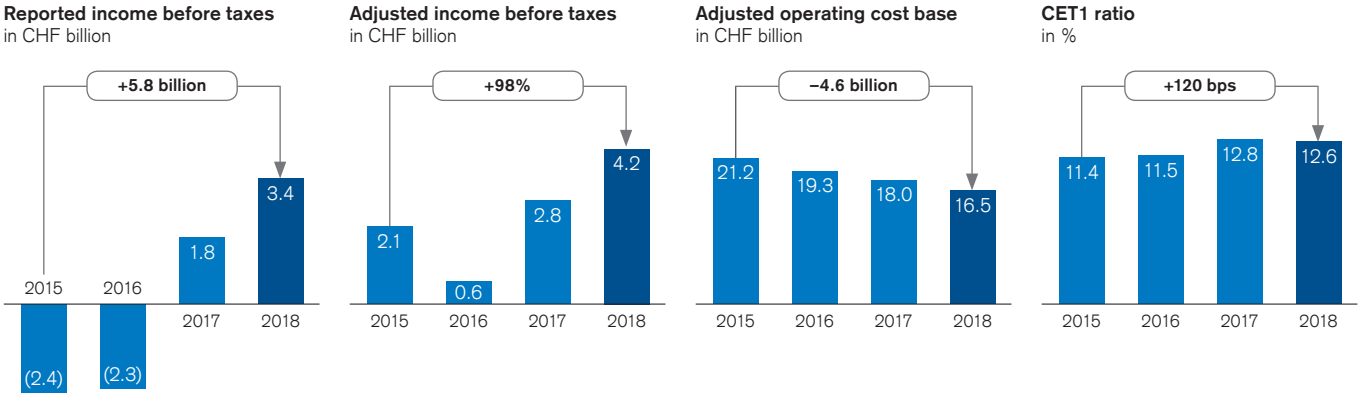
Strategic initiatives
✔ Achieved external cost target of < CHF 17 billion
✔ Closed down the Strategic Resolution Unit
✔ Launched share buyback
✔ Increased capital consumption of Wealth Management-related[1] and Investment Banking & Capital Markets businesses to 68% in 2018, compared with 49% in 2015
✔ De-risked Global Markets activities since 2015
✔ Significantly upgraded compliance and control frameworks

Adjusted results are non-GAAP financial measures which exclude certain items included in our reported results. Refer to "Reconciliation of adjusted results" in I – Information on the company – Strategy and II – Operating and financial review – Credit Suisse for further information.

1 References to our Wealth Management-related businesses mean our Swiss Universal Bank division, our International Wealth Management division and our Wealth Management & Connected business within our Asia Pacific division or their combined results.

2 Referring to the combined net new assets of Private Clients within Swiss Universal Bank, Private Banking within International Wealth Management and Private Banking within Wealth Management & Connected in Asia Pacific.

Group performance highlights over the strategic restructuring period



→ Adjusted results are non-GAAP financial measures which exclude certain items included in our reported results. Refer to "Reconciliation of adjusted results" in I – Information on the company – Strategy and II – Operating and financial review – Credit Suisse for further information. 2015 adjusted income before taxes excludes a goodwill impairment of CHF 3,797 million, major litigation provisions of CHF 820 million, restructuring expenses of CHF 355 million, a positive fair value impact from movements in own credit spreads of CHF 298 million, real estate gains of CHF 95 million and gains from business sales of CHF 34 million.

The Group's key financial and strategic achievements and overall performance during 2018 were taken into consideration by the Board of Directors (Board) in its approval of the following compensation decisions for the Group and the Executive Board:

- Group variable incentive compensation pool of CHF 3,195 million, stable compared with the prior year, while taking the opportunity to increase the level of differentiation for high performers;
- Total aggregate Executive Board compensation of CHF 93.49 million, 17% higher than the prior year (before the 40% voluntary reduction in the 2017 long-term incentive (LTI) maximum opportunity); and
- Total CEO compensation of CHF 12.65 million, 13% higher than the prior year (before the 40% voluntary reduction in the 2017 LTI maximum opportunity).

2018 compensation decisions

Group compensation

The Group takes a total compensation approach, whereby fixed and variable compensation are assessed in total at the individual level to determine an appropriate balance between the two components. Overall Group compensation and benefits expense for 2018 decreased by 7%, from CHF 10,367 million in 2017 to CHF 9,620 million.

In addition to the Group's financial performance in 2018, the Compensation Committee considered a range of other factors in determining the Group's variable incentive compensation pool. These included progress made against strategic objectives, relative performance, market position and market trends, as well as control, risk, compliance and ethical considerations. Taking all of these factors into account, the Board approved a total Group variable incentive compensation pool of CHF 3,195 million, stable compared with 2017.

Market conditions in the second half of 2018 became more challenging for the financial services industry, with a significant drop in client activity resulting from a combination of factors including increasing trade tensions, rising US interest rates and greater geopolitical uncertainty. Against the backdrop of these conditions, the Compensation Committee decided to keep the Group variable incentive compensation pool stable to the previous year, notwithstanding an increase in adjusted income before taxes of 52% over the same period, to protect returns and profitability in light of downward pressure on revenues during the second half of the year.

→ Refer to the "Group compensation and benefits expense" table and "Determination of variable incentive compensation pools" in Group Compensation for further information.

The Group variable incentive compensation pool includes the amounts for the Executive Board and the CEO. Although the overall pool is stable compared with the previous year, differentiation has been made such that high-performing employees received year-on-year increases in variable incentive compensation to reflect their contribution to the Group's improved financial performance. In addition, as a result of high deferral rates and the granting of share-based deferred awards, the realized compensation of senior employees and the Executive Board members is aligned with shareholders' interests.

Executive Board compensation

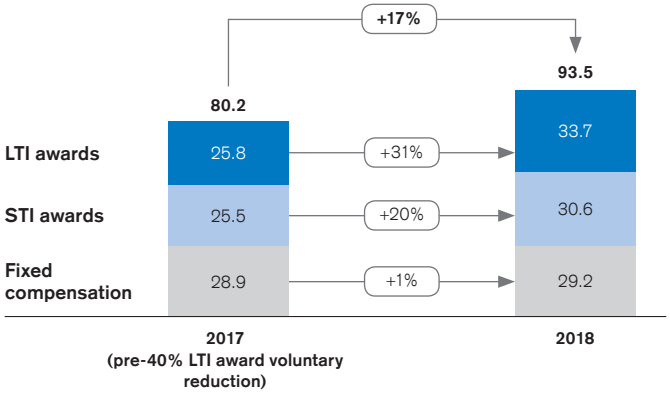
Total aggregate Executive Board compensation for 2018 is CHF 93.49 million, which is comprised of:

- CHF 29.20 million total fixed compensation;
- CHF 30.56 million total 2018 short-term incentive (STI) award, subject to shareholder approval at the 2019 AGM;
- CHF 33.73 million total 2018 LTI award at fair value at the time of grant, with a maximum opportunity of CHF 58.5 million, as approved at the 2018 AGM.

→ Refer to "Executive Board compensation for 2018" for further information.

Total Executive Board compensation

in CHF million



Compared with the amount for 2017, before the voluntary 40% reduction in the LTI maximum opportunity, total compensation for 2018 is 17% higher than the prior year. The main drivers of this change are improved performance in exceeding the cost target and significantly higher profitability as reflected in the 2018 STI awards, increases to the maximum opportunities for certain selected Executive Board members based on role expansion and scope of responsibilities, and a higher fair value for the 2018 LTI awards calculated by one of the major international accounting firms. It is important to note that taking the Executive Board as a whole (excluding the CEO), maximum opportunities average 54% of the STI cap of 2.5 times base salary and 55% of the LTI cap of 4.25 times base salary.

The year-on-year change in Executive Board compensation disclosed for 2018 is largely driven by the 2018 LTI award, which was approved at the 2018 AGM. The drivers of the higher LTI award amount are the return to the LTI opportunity levels before the voluntary 40% reduction that was reflected in the 2017 LTI award, increases to the maximum opportunities of selected Executive Board members and a higher fair valuation of the awards.

As part of the annual review and assessment of market benchmarking data, the maximum opportunities of certain individual members were adjusted to better reflect the expansion of their roles and responsibilities, and in a small number of cases, to more closely align with the increased market value of such roles. While the review of benchmarking data is an annual process, adjustments to maximum opportunities are made selectively and do not happen frequently for individual Executive Board members.

The STI award amount is determined based on performance against financial and non-financial metrics. The financial metrics (66⅔% weighting) consist of pre-defined performance levels for adjusted income before taxes and a cost target, and the Group's financial performance in 2018 resulted in a payout of approximately 85% of the maximum opportunity for the financial performance component. The non-financial metrics (33⅓% weighting) cover strategic repositioning, client focus/quality of business/innovation, talent management, risk and regulatory, conduct and ethics, and teamwork and leadership. As described in more detail later in this report, the Compensation Committee considered the performance of each Executive Board member against individual metrics related to the above mentioned six broad categories, and determined that as a whole, the Executive Board (excluding the CEO) achieved approximately 89% of the maximum opportunity for the non-financial performance component of the total STI award pool. The overall amount represents, on average, 87% of the pre-defined maximum opportunity of each Executive Board member.

→ Refer to "Executive Board compensation for 2018" for further information on the 2018 STI award financial and non-financial performance assessments.

For the Executive Board compensation framework, the variable compensation elements are comprised of STI and LTI opportunities, which at their maximum potential value represent 78% of total compensation. To align with the Group's longer-term strategy, approximately two-thirds of the variable maximum opportunity is in the form of the LTI award and one-third in the form of the STI award. The cash-based STI award achievement level is assessed against pre-determined financial and non-financial performance targets applicable to the financial year. The share-based LTI award utilizes metrics which are aligned to longer-term shareholder objectives, including relative total shareholder return (RTSR), return on tangible equity (RoTE) and tangible book value per share (TBVPS) performance targets over a three-year period. The number of shares that may vest is determined based on achievement of performance targets at the end of the performance period, and cannot exceed the maximum number of shares granted. The value of the LTI award is further subject to the prevailing share price on the dates the shares are settled.

We believe this framework closely aligns the value delivered under these awards to the shareholder experience over the same time period, as illustrated by the vesting percentages and current value in shares of the 2016 LTI award where 41% of the maximum number of shares were earned after the end of the performance period.

→ Refer to the "2016 LTI awards in the 2016-2018 performance cycle" in Executive Board compensation for 2018 for further information.

CEO compensation
Following a review of Executive Board compensation at the beginning of 2018, the Compensation Committee considered the overall Executive Board compensation design to be appropriate, but recommended an adjustment, which was approved by the Board, to increase the Group CEO's STI maximum opportunity by CHF 1.0 million, from 1.5 times base salary to 1.83 times base salary for 2018. This adjustment is designed to acknowledge the strong performance of Mr. Thiam over the course of his tenure to date and the successful execution of the three-year restructuring program. It represents the first change to Mr. Thiam's maximum opportunity levels since his appointment in 2015. Aside from the CEO, no changes were made to the overall cap on the 2018 STI maximum opportunity for the Executive Board.

Mr. Thiam's proposed total compensation for 2018 of CHF 12.65 million is 13% higher than it was for the prior year, before the voluntary reduction in his 2017 LTI award. This is mainly driven by improved performance, the increase in his STI award maximum opportunity and the higher fair value for the 2018 LTI award, with no change to the LTI maximum opportunity.

→ Refer to "Compensation of the CEO and the highest paid Executive Board member" in Executive Board compensation for 2018 for further information.

Board of Directors compensation
No changes were made to the Board's compensation framework for 2018, which continues to be based on a fixed fee structure with pre-defined fees for Board membership, committee membership and chairing a committee. The fee amounts are set at levels comparable with those at other leading Swiss companies and global financial services firms. With the exception of the Chairman, 50% of the Group-level Board fees are paid in Group shares, subject to blocking restrictions for four years. In line with industry practice, Board fees are not linked to the financial performance of the Group. Fees for specific Board leadership roles are reviewed periodically and adjusted as required. Base Board fees have been unchanged for over 10 years. In the past few years, the Chairman has voluntarily waived all or part of his chair fee. For the 2018 AGM to 2019 AGM period, the Chairman's compensation has returned to the previously approved level, in light of the completion of the Group's restructuring program and return to profitability. Total board fees, including subsidiary board fees, for the 2018 AGM to 2019 AGM period are within the approved amount and 2% higher than the prior period, primarily reflecting an additional Board member.

→ Refer to "Board of Directors compensation" for further information.

Annual review of our compensation framework

During 2018, the Compensation Committee conducted its annual review of the overall compensation framework at Credit Suisse, to ensure that it remains fit for purpose and aligned with the objectives of our compensation strategy. In particular, the Compensation Committee assessed the extent to which the framework (i) aligns pay and performance, (ii) supports a performance culture based on merit, (iii) attracts, retains, rewards and motivates the talented individuals needed for our long-term success as a client-focused and capital-efficient business, (iv) recognizes and rewards excellent short- and long-term performance, and (v) aligns with the Group's values. In addition, the Compensation Committee reviewed market developments to assess whether current practices remain appropriately competitive. As a result of this review, it determined that the overall compensation framework continues to be appropriate for 2019. No changes to its structure are therefore proposed, aside from updating some of the STI performance metrics and performance target levels for the STI and LTI awards in relation to the Executive Board.

2019 STI and LTI awards
For the 2019 STI awards, we have updated the measures to more appropriately reflect the Group's strategy after the restructuring period and the achievement of our previously communicated cost target in 2018. As such, the performance criteria for the 2019 STI awards will consist of adjusted income before taxes (33⅓% weighting), reported RoTE (33⅓% weighting) and a non-financial assessment (33⅓% weighting). RoTE is a key measure of return generation and therefore its inclusion as a performance metric for the STI award, focused on the 2019 financial year, complements the RoTE measure in the LTI award which is measured as an average over a three-year period. Following the successful completion of our three-year cost reduction program, cost management remains an important aspect of our strategy and will be captured by the adjusted income before taxes metric rather than a specific cost target. This update of the performance metrics ensures that management is focused on, and will be rewarded for, successful delivery of our key priorities for 2019.

For the 2019 LTI awards, no changes have been made to the design or the performance metrics, since they continue to reflect the longer-term strategy of the Group. However, the AGM proposal put forward for shareholder approval will be based on the fair value of the 2019 LTI awards at grant date, instead of the maximum opportunity. The rationale for using fair value as the basis for shareholder approval is to align the proposal with the disclosure of Executive Board compensation in the Compensation Report. In addition, the fair value of the LTI awards is closer to the historical vesting of such awards than the maximum opportunity. The AGM invitation and accompanying materials will continue to contain the same level of information regarding the LTI award proposal as provided previously.

Following the recently announced changes to the composition of the Executive Board, the aggregate maximum opportunity for the 2019 LTI awards will be CHF 57.5 million, slightly below the 2018 level, resulting from modifications to the scope of the roles for the incoming members. Further, the two departing Executive Board members will not be granted any entitlements they have with respect to the 2019 STI and LTI awards in their roles as Executive Board members.

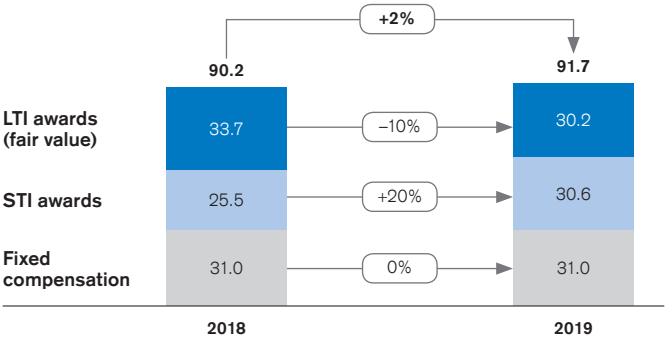
2019 AGM say on pay proposals

At the 2019 AGM on April 26, 2019, we plan to submit the following proposals related to Executive Board and Board of Directors compensation:

- Maximum aggregate amount of CHF 31.0 million in total fixed compensation for the Executive Board for the 2019 AGM to 2020 AGM period – no change compared with the prior year's proposal approved at the 2018 AGM;
- CHF 30.6 million total 2018 STI award to be granted to the Executive Board – 20% higher compared with the prior year's amount approved for the 2017 STI award;
- CHF 30.2 million total 2019 LTI award at fair value at the time of grant, with a maximum opportunity of CHF 57.5 million – CHF 1 million less than the maximum opportunity approved at the 2018 AGM; and
- Maximum aggregate amount of CHF 12.0 million in total compensation for the Board for the 2019 AGM to 2020 AGM period – no change compared with the prior year's proposal approved at the 2018 AGM.

AGM proposals: Executive Board compensation

in CHF million



Shareholder engagement

During 2017, we undertook several rounds of consultation to listen to shareholders and receive feedback on our compensation arrangements. Taking on board the views that we heard, we announced a number of changes in our 2017 Compensation Report to address some key themes on compensation design for the Executive Board and Board of Directors raised by shareholders during this process. The consultative vote on the 2017 Compensation Report received 81% of votes in favor at our 2018 AGM, a material year-on-year increase.

We are of course conscious that there remains room for improvement. With this in mind, we continued to engage with key shareholders and external stakeholders during 2018, both to listen to their views on the changes made in 2018, and to understand any thoughts they had on areas of focus for the Compensation Committee in future years. Going forward, shareholder engagement will remain a key pillar of our annual compensation design process, with discussions on potential future changes in the third quarter, further consultation towards the end of the year, and communication of the compensation framework and proposals in the lead up to the AGM.

On behalf of the Compensation Committee, I would like to thank you for your support and feedback, which we will continue to seek as we review and refine our compensation practices to ensure that they remain fully compliant with all regulatory requirements and aligned with the interests of our shareholders.

Kai S. Nargolwala
Chair of the Compensation Committee
Member of the Board of Directors
March 2019