# Compensation

## DEAR SHAREHOLDERS

As the Chairman of the Compensation Committee of the Board (Compensation Committee), I am pleased to present to you the 2015 Compensation Report. Let me briefly highlight some of the focus areas of the Compensation Committee in 2015, the main compensation decisions related to variable incentive compensation awarded for the 2015 financial year, as well as the resolutions which we will submit for binding shareholder votes at this year's AGM.

### Key developments

Following the appointment of Tidjane Thiam as the new Chief Executive Officier (CEO), we communicated in October our new strategic direction, including a changed organizational structure and composition of the Executive Board. The organizational structure, which is client-focused and designed to improve the alignment with market and regulatory differences in the various regions, included a right-sizing and re-organization of the former Investment Banking division. This triggered the reassessment of certain assets and resulted in a goodwill impairment charge of CHF 3.8 billion in the fourth quarter of 2015, the most significant component of which arose from the acquisition of Donaldson, Lufkin & Jenrette Inc. in 2000.

In line with the management and organizational changes, and in response to shareholder feedback that compensation arrangements for the Executive Board fully reflect the Group's new strategy and communicated financial goals, the Compensation Committee initiated a review of the compensation structure and recommended various amendments for approval by the Board of Directors (Board). These amendments are outlined below. In addition, the Compensation Committee carefully monitored the Group's continued progress in considering risk in connection with performance reviews and the compensation process. This included achieving greater consistency across divisions and regions in setting compensation, as well as in pursuing the application of malus and clawback provisions to the extent permitted under local laws, in the event of disciplinary infractions.

Another significant factor affecting compensation in 2015 was the challenging market environment, which negatively impacted the Group's performance, especially in the fourth quarter of the year. Given that these volatile market conditions are expected to continue, it is timely that we have placed the utmost priority on the repositioning of Credit Suisse's strategy and the redesign of our Executive Board compensation structure.

### Compensation decisions

#### Group compensation

For 2015, the Board approved the Compensation Committee's proposal to award total Group variable incentive compensation of CHF 2,920 million, which was 11% lower compared to 2014, and 19% lower compared to 2013. The divisional pools for Global Markets and Investment Banking & Capital Markets decreased by more than 30%, a substantial reduction compared to 2014 levels, reflecting the weak performance of those divisions in 2015, particularly in the fourth quarter. As a result, 31% of employees in those divisions had their variable incentive compensation reduced by more than 50% for 2015, compared to the previous year.

Of the total variable incentive compensation awarded across the Group for 2015, 43% was deferred, compared to 48% in 2014. This reduction in deferral rates is part of an initiative to gradually reduce the amortization impact of deferred compensation on future financial years.

#### Executive Board compensation

To align our Executive Board compensation with the new strategic direction and to achieve a stronger link between pay and performance, upon the recommendation of the Compensation Committee the Board has approved a revised compensation structure with the following key features to be fully implemented in 2016:

- Variable incentive compensation will be awarded as Short-Term Incentive (STI) and Long-Term Incentive (LTI) opportunities. Each component will be expressed as a percentage of base salary taking into account the role, market experience and geography, and actual payout levels will be limited to 100% of the opportunity. Payout levels for STI awards will be based on the achievement of performance targets for the prior financial year, whereas the payout of LTI awards will be linked to future performance pursuant to the long-term strategic plan, with no link to prior year Group or divisional performance;
- The Board will approve targets for STI and LTI awards with defined "Threshold", "Target" and "Maximum" performance levels, corresponding to payouts of 25%, 80% and 100% respectively. There will be no payout for actual performance achievements below the "Threshold", and any payout of 100% of the opportunity would require outperformance above the pre-determined goals; and
- In addition to internal key performance metrics, LTI awards will be based on Total Shareholder Return (TSR) as a market-determined metric. TSR will be measured against a newly defined group of 18 peers on a ranked basis. A 100% payout of the LTI opportunity requires a Credit Suisse TSR ranking within the top four of the peer group over a three-year performance period.

For 2015, the Board proposes to award variable incentive compensation to members of the Executive Board as STI awards in a combination of cash and Contingent Capital Awards (CCA) in line with the structure envisaged in the 2014 Annual Report. Subject to shareholder approval, we intend to grant LTI awards under the new structure, i.e., unrelated to the performance in 2015 and contingent upon performance targets pre-determined for the three-year period from the beginning of 2016 until the end of 2018.

Given the significant changes in the composition of the Executive Board and the new organizational structure, modifications to the basis for determining variable incentive compensation were required, and different approaches were applied depending on the length of service of each Executive Board member during 2015. The overall Group financial results were taken into account under each approach:

- For the five individuals who were members of the Executive Board during the entire year of 2015, variable incentive compensation awarded in the form of STI awards (including cash and deferred STI awards) was on average 40% below the value of STI awards granted with respect to the prior year;
- For the three individuals who joined Credit Suisse during 2015 and were appointed to the Executive Board during 2015, including the CEO, variable incentive compensation was determined by taking into account individual contributions to the implementation of the changed organizational structure and strategy, the weaker financial performance in the fourth quarter of 2015, and the CEO's voluntary request for a 40% reduction in the amount of variable incentive compensation that would have been otherwise awarded to him;
- For the four existing employees who were promoted to the Executive Board during 2015, variable incentive compensation awarded was based on an assessment against pre-existing performance objectives for the first nine months of the year, and an assessment of performance in the fourth quarter of 2015, taking into account individual contributions and the business performance during that period, as applicable; and
- For the five individuals who ceased to be Executive Board members during 2015, variable incentive compensation awarded was negotiated on a case by case basis through separation agreements.

### Board of Directors compensation

The fee structure for members of the Board remained unchanged compared to the previous year. In consideration of the Group's weaker financial performance in 2015 and the reported full year loss, the Chairman proposed to voluntarily waive his chair fee of CHF 1.5 million for the period from the 2015 AGM to the 2016 AGM, and this proposal was approved by the Board in the context of determining compensation.

### Annual General Meeting of Shareholders 2016

In line with the Swiss Ordinance Against Excessive Compensation with respect to Listed Stock Corporations (Compensation Ordinance) and the Group's Articles of Association (AoA), the compensation of the Board and the Executive Board will be submitted for binding shareholder votes at the 2016 Annual General Meeting of Shareholders (AGM). Accordingly, shareholders will be asked to approve the following:

- maximum aggregate compensation for the Board for the period 2016 AGM to 2017 AGM (prospective vote);
- Executive Board aggregate variable incentive compensation for the 2015 financial year (retrospective vote);
- maximum aggregate fixed compensation for the Executive Board for the period 2016 AGM to 2017 AGM (prospective vote); and
- maximum aggregate amount of LTI compensation to be awarded to members of the Executive Board for the financial year 2016, subject to performance measurement over the three-year period from 2016 to 2018, followed by vesting and delivery in three installments over two years on the third, fourth, and fifth anniversaries of the grant date (prospective vote).

The actual fixed compensation paid to the Board and the Executive Board for the period 2015 AGM to 2016 AGM was in line with the amounts approved by the shareholders at last year's AGM.

We will continue to submit the entire Compensation Report for a consultative vote as was our practice in the past.

The Compensation Committee is satisfied that this Compensation Report reflects the review process and determination of compensation for 2015. This Compensation Report is in line with the specific remuneration disclosure requirements issued by the Swiss Financial Market Supervisory Authority FINMA (FINMA). In the context of compensation for the Board and the Executive Board, the Compensation Report is in compliance with the respective provisions of the Compensation Ordinance, as confirmed by our auditors KPMG. The activities of the Compensation Committee were executed in accordance with its mandate under the Credit Suisse Organizational Guidelines and Regulations (OGR) and the Compensation Committee charter.

On behalf of the Compensation Committee, I would like to thank you for your support and feedback, which we will continue to solicit in the context of reviewing and refining our compensation practices to ensure both full compliance with all regulatory requirements as well as alignment with the interests of our shareholders.

Jean Lanier
Chairman of the Compensation Committee
Member of the Board of Directors
March 2016