Compensation

DEAR SHAREHOLDERS

As the Chairman of the Compensation Committee of the Board (Compensation Committee), I am pleased to present to you the 2016 Compensation Report. Let me briefly highlight some of the focus areas of the Compensation Committee in 2016, the main compensation decisions related to variable incentive compensation awarded for the 2016 financial year, as well as the resolutions which we will submit for binding shareholder votes at this year's AGM.

Key developments

During the first full year of our three-year strategic plan announced in October 2015, the Compensation Committee closely monitored the progress of the implementation of the Group's strategy, assessed the performance of the Group and divisions against predefined objectives and determined the appropriate levels of compensation for our employees in light of the operating results and market environment.

In the first quarter of 2016, the investment banking businesses, namely Global Markets and Investment Banking & Capital Markets, experienced key employee retention issues which resulted from the substantial reductions in their respective variable compensation pools that reflected the disappointing financial performance in 2015. Consequently, the Board of Directors (Board) approved special retention awards which enabled senior management to retain critical staff on a selective basis and to prevent harmful departures during a period of restructuring.

Based on this experience, the Compensation Committee acknowledged that 2016 was an important transition year which involved significant restructuring and re-organization efforts amid challenging market conditions and related uncertainties. Further, in order to remain competitive in the market during periods of transition, a differentiated approach to determining compensation was required. In particular, for divisions engaged in significant investment in building a client-centric operation such as Investment Banking & Capital Markets and Asia Pacific, as well as for Global Markets as a division undergoing substantial restructuring, the variable compensation pools for 2016 were set to ensure that employees who met their performance targets could be compensated in line with the market in order to retain key talent and, in the best interest of shareholders, maintain momentum for the continued execution of the Group's strategy in 2017 and 2018. Overall, the Compensation Committee recognized that the strategy was executed with discipline throughout the Group's organization and that important milestones in terms of cost reduction, reduced risk profile and strengthened capital base were met or surpassed in 2016.

In addition, the Compensation Committee carefully monitored the continued progress of the Group in considering risk and control in connection with performance reviews and the compensation process. Under the enhanced compensation and risk framework which was introduced in 2016, all divisions were assessed against pre-defined risk measures. Based on the consolidated findings the Compensation Committee applied upward as well as downward adjustments to select divisional variable compensation pools. These adjustments were communicated within the respective divisions to reiterate the correlation between risk and control considerations and pay.

2016 Compensation decisions

Group compensation

The Compensation Committee acknowledged that the 2016 financial results reflected a year of significant transition and that the reported pre-tax loss of CHF 2,266 million included a provision in the fourth quarter of approximately USD 2 billion relating to the settlement with the United States Department of Justice (DOJ). Nevertheless, the businesses made strong progress in achieving their strategic objectives, including reducing their cost base and increasing market share in key client and product segments. For 2016, the Board approved the Compensation Committee's proposal to award total Group variable incentive compensation of CHF 3,093 million. The increase of 6% compared to 2015 reflected the impact of strategic hiring in high growth business areas as well as the previously mentioned market adjustments to particular divisional pools. Total compensation awarded for 2016 increased slightly compared to the previous year, and total compensation expense was 8% lower compared to the previous year, largely due to lower levels of deferred compensation that vested in 2016.

Of the total variable incentive compensation awarded across the Group, 44% was deferred, compared to 43% in 2015.

Executive Board compensation

To align our Executive Board compensation with the new strategy, a revised compensation structure as outlined in the 2015 Compensation Report was approved and fully implemented in 2016. Accordingly, variable incentive compensation is awarded as Short-Term Incentive (STI) and Long-Term Incentive (LTI) opportunities.

The 2016 STI awards were fully dependent on the performance for the 2016 financial year. Payout levels were determined by quantitative criteria (70% weighting) and qualitative performance objectives (30% weighting). With respect to the quantitative performance criteria the Board approved explicit targets for 2016 with "Threshold", "Target" and "Maximum" performance levels, corresponding to payouts of 25%, 80% and 100%, respectively. Accordingly, achieving the target performance level would result in a payout of 80% of the maximum opportunity, whereas there would be no payout for actual performance below the respective threshold level. The section "Executive Board Compensation" of this report provides further details regarding the performance assessment against quantitative and qualitative criteria which formed the basis for the 2016 STI award recommendations.

The Board's proposal to shareholders is to deliver the 2016 STI awards in the form of 50% immediate cash and 50% deferred cash vesting on the third anniversary of the grant date.

In addition to the 2016 STI awards and subject to the approval of shareholders, we intend to grant 2017 LTI awards contingent upon performance targets that are pre-determined for the three-year period from the beginning of 2017 to the end of 2019. These awards will be delivered in the form of shares in three equal tranches on the third, fourth and fifth anniversary of the grant date.

Board of Directors compensation

Consistent with the past several years, compensation of the Board of Directors 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 to other leading Swiss companies and global financial services firms and, in line with industry practice, are not linked to the financial performance of the Group. The fee structure for members of the Board remained unchanged compared to the previous year, with the exception of the chair fees for the Audit Committee and Risk Committee Chairmen, which have been adjusted downward to better reflect market levels for these roles. Furthermore, the Chairman proposed to voluntarily waive 50% of his chair fee of CHF 1.5 million for the period from the 2016 AGM to the 2017 AGM, and this proposal was approved by the Board.

Annual General Meeting of Shareholders 2017

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 Executive Board and the Board will be submitted for binding shareholder votes at the 2017 Annual General Meeting of Shareholders (AGM). Accordingly, shareholders will be asked to approve:

- Executive Board aggregate variable STI compensation for the 2016 financial year (retrospective vote)
- Maximum aggregate fixed compensation for the Executive Board for the period 2017 AGM to 2018 AGM (prospective vote)
- Maximum aggregate amount of 2017 LTI compensation to be awarded to members of the Executive Board subject to performance measurement over the three year period from 2017 to 2019, followed by two years of phased vesting and delivery in three installments on the respective third, fourth and fifth anniversaries of the grant date (prospective vote)
- Maximum aggregate compensation for the Board for the period 2017 AGM to 2018 AGM (prospective vote)

The actual fixed compensation paid to the Board and the Executive Board for the period 2016 AGM to 2017 AGM as well as the 2016 LTI compensation granted to members of the Executive Board was within the maximum 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 2016. 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 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 2017