Credit Suisse AGM 2011, April 29

Response of Credit Suisse to the vote recommendation by ISS on the Remuneration Report (Resolution 1.2)

2010 compensation at a glance

- Our approach to compensation reflects our commitment to reward long-term performance and to act in a responsible way. It is in line with the proposals outlined by the G20 and includes significant input from our shareholders and regulators.
- We strengthened our plans to align with proper risk-taking – we eliminated leverage, strengthened claw-back features (which we believe are some of the most onerous in the industry), lengthened vesting periods and significantly increased the deferral percentages of variable compensation. We also significantly improved disclosure.
- We take corporate governance matters very seriously and continue to actively engage with the proxy agencies and shareholders on them.

ISS vote recommendation and implications for Credit Suisse shareholders

- After significant effort in engaging with ISS over the last nine months; we are surprised and disappointed with the AGAINST recommendation.
- We are concerned that the regional voting policy applied by ISS is not appropriate to assess Credit Suisse, as it competes with other major banks globally. We fear that Credit Suisse is left with a competitive disadvantage.
- However, we are pleased to note that “ISS acknowledges the positive changes made by CSG in the past year, and understands that some shareholders may wish to vote in favor of the remuneration report to register support for these changes”.
- We respectfully disagree with the ISS vote recommendation and urge our shareholders to consider a FOR vote for the following reasons:

Specifically in responding to the concerns of ISS

- On ExB compensation
    - Based on feedback received at last year’s AGM regarding the perceived lack of a cap on variable compensation, we now disclose the ExB compensation pool method in the 2010 remuneration report. Our pool concept has been applied since 2006 and the elimination of leverage in 2010 provides for a natural cap.
    - ISS does not seem to have fully taken into account the three categories of ExB performance criteria set out in our Compensation report, which restricts the size of the ExB variable compensation pool. Two of the three performance categories are based on objective, measurable performance criteria. This supports the existence of individual performance criteria and limited discretion around any individual award.
    - We believe there are inconsistencies in the way ISS looks at our peer group. For example, they apply a FOR recommendation for the

remuneration scheme of one of our European competitors that caps variable compensation for its two disclosed Executive Directors. From the Project Merlin disclosure it is public knowledge that key senior executives receive compensation significantly beyond the caps. However, we have allowed shareholders have a proper vote on compensation of the executives who run the business, as we provide extensive disclosure on the 13 person senior executive team, as well as for the entire management population.

- In another instant related to one of our peers in the US, ISS has assigned a FOR recommendations although based on their published remuneration report, there is no cap on variable compensation.
- We do disclose in our Compensation report that we have fully eliminated the use of SISU and ISU.
- We do disclose in our Compensation report that variable cash compensation is capped, consistent with our long established practice.
- We do disclose in our Compensation report all elements of ExB pay for 2010, including around CHF 3m in "payments and awards due to contractual agreements", which was awarded outside the annual variable compensation process for the ExB, and all fringe benefits and other types of compensation.
- We are committed to pay for performance on the basis of the below principles:

Performance-based	**Long-term**	**Responsible**
• ExB variable compensation based on three performance categories, financial, non-financial and relative to peers. • Average total ExB compensation down 32% reflecting lower absolute performance in 2010.	• ExB compensation method applied since 2006. • 100% of 2010 variable ExB compensation deferred; vesting periods extended to four years. • Active ExB members with no unrestricted variable compensation since 2008	• Plans simpler and more transparent. • Share awards without leverage. • Claw-back provisions not only for ExB, but for more than 7’000 staff members throughout the Group.

- <u>On share awards</u>
  - Our 2010 share awards are also a result of the emerging requests by our regulators for greater deferrals and a higher non-cash element with respect to these deferrals.
  - They are subject to the performance evaluation in the year of award and their value at vesting is dependent on the performance of the Credit Suisse stock, thus aligning the interests of employees and shareholders.
  - These are multi-year schemes and include substantial claw-back arrangements based on communicated objectives and financial metrics.
  - Potential economic dilution is limited, as we either purchase shares in the market or use available conditional capital which is subject to a cap approved by separate AGM resolution.

    - One should keep in mind that Credit Suisse was one of the few financial institutions amongst our peer group not to dilute shareholders through capital raisings over the last five years. This penalises us when assessing the dilution criteria, as the number of shares outstanding over the last years is practically stable.
    - ISS did not disclose their calculation of dilution and burn rate. Based on our calculations, the number of share awards relative to shares issued remains clearly below 10%. On a net basis, taking into consideration new awards and latest deliveries, the number of outstanding share awards remained relatively stable.

- <u>On the non-independence of the Compensation Committee</u>
    - ISS does not hold us up to the standard stipulated by the Swiss Code of Practice as it has applied tenure limits based on independence standards of the European Commission to determine a “lack of independence” in the Compensation Committee at Credit Suisse. Under Swiss and NYSE regulation, the Compensation Committee at Credit Suisse is fully independent. While ISS imposes tenure limits on Credit Suisse under its European policy, no such limits are applied to the US competitors of Credit Suisse, as they are assessed by ISS under another regional policy
    - Long-tenured directors who understand the financial services industry tend to be in the best position to understand the bank’s compensation system and business, which puts them in the best position to challenge management on compensation issues.

- <u>Outlook</u>
    - Despite all our efforts, we recognize that compensation remains a controversial subject. We take the expectations and concerns of all or different stakeholders and the general public seriously.
    - However, it is important for Credit Suisse to remain competitive with our international peers in our compensation policies. We believe our approach is significantly more conservative than that of our global competitors and should be assessed as such.
    - We expect regulation and industry practice to emerge further and we continue to monitor trends and potential areas of improvement. As we are committed to good corporate governance, we hope for an ongoing, open and constructive dialogue.
    - We believe that our compensation plans and disclosure for the EXB as well as for the broader senior management represents best practice, with onerous claw-back provisions, extended vesting, elimination of leverage and a cap on cash based variable compensation. As ISS acknowledges, we have made significant improvements in 2010, both to these plans and to our disclosure, and we encourage our shareholders to recognise this with a FOR vote.