

Basel III Pillar 3 Disclosures 2018



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Introduction

This document comprises the Pillar 3 disclosures for Credit Suisse (UK) Limited ('CSUK' or 'the Bank') as at 31 December 2018. It should be read in conjunction with CSUK's 2018 Annual Report which can be obtained from Companies House, Crown Way, Cardiff, Wales, CF14 3UZ.

The Basel II Framework was updated by the introduction of Basel III and the amended regime was implemented in the EU from 1 January 2014 by means of a Directive and a Regulation, collectively known as 'CRDIV'. These Pillar 3 disclosures are prepared to meet the regulatory requirements set out in Part Eight of the Capital Requirements Regulation ('CRR'). Pillar 3 aims to promote market discipline and transparency through the publication of key information on capital adequacy, risk management and remuneration.

CSUK is authorised by the Prudential Regulatory Authority ('PRA') and regulated both by the Financial Conduct Authority ('FCA') and the PRA.

Basis and Frequency of Disclosures

Where disclosures have been withheld, as permitted, on the basis of confidentiality, materiality, or being proprietary in nature, this is indicated. Pillar 3 disclosures are published annually and concurrently with the annual report.

The annual report is prepared under International Financial Reporting Standards ('IFRS') and accordingly, certain information in the Pillar 3 disclosures may not be directly comparable. A reconciliation of regulatory 'own funds' calculated under CRDIV with CSUK's 2018 Statement of Financial Position is presented in the Capital Management section.

This Pillar 3 document has been verified and approved in line with internal policy. It has not been audited by CSUK's external auditors. However, it includes information that is contained within the audited financial statements as reported in the 2018 Annual Report.

Basis of Consolidation

These Pillar 3 disclosures are prepared on a stand-alone basis, as is CSUK's IFRS financial statements.

Remuneration Disclosures

The remuneration disclosures required by CRR Art 450 can be found in a separate document ('Pillar 3 – UK Remuneration Disclosures 2018') on the Credit Suisse website at www.credit-suisse.com.

Capital Management

Overview

The Credit Suisse group ('CS group') considers a strong and efficient capital position to be a priority. Consistent with this, CSUK 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.

Multi-year business forecasts and capital plans are prepared by CSUK, 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 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 basis for the SREP ('Supervisory Review and Evaluation Process') conducted by the PRA when assessing the Bank's minimum level of regulatory capital.

Capital Resources

Article 437 of the CRR requires disclosure of the main features of any Common Equity Tier 1 ('CET1'), Additional Tier 1 ('AT1') and Tier 2 instruments that make up an institution's regulatory own funds (or capital resources).

CSUK's CET1 capital comprises ordinary shares. These shares carry voting rights and the right to receive dividends. CSUK has not issued any AT1 instruments and details of its Tier 2 subordinated loan capital can be found in Appendix 1.

CSUK's capital composition and principal capital ratios are presented in the tables below, together with a reconciliation to CSUK's 2018 IFRS Statement of Financial Position. No amount shown in 'Own Funds' is subject to CRDIV transitional provisions.

Capital Composition (£000s)

As at 31 December	2018	2018		2017
	Own Funds	Statement of Financial Position ⁽¹⁾	Difference	Own Funds
Note	(a)	(b)	(a) - (b)	
Tier 1 (and CET1) Capital				
Ordinary shares	245,230	245,230	-	245,230
Share premium	11,200	11,200	-	11,200
Accumulated losses	(16,640)	(16,640)	-	(48,375)
Capital contribution reserve	(2) 57,500	57,500	-	27,500
Accumulated other comprehensive income	-	-	-	2,289
Tier 1 (and CET1) before regulatory deductions	297,290	297,290	-	237,844
Prudential filters and regulatory adjustments				
Intangible assets	(3) (17,948)			(18,745)
Deferred tax assets on non-temporary differences	(4) (3,683)			(3,684)
Gain on AFS equities	(5) -			(2,289)
Total Tier 1 (and CET1) Capital	275,659	297,290	(21,631)	213,126
Tier 2 Capital				
Subordinated loan	(6) 55,000	55,000	-	25,000
Total Tier 2 Capital	55,000	55,000	-	25,000
Total Capital ('Own Funds')	330,659	352,290	(21,631)	238,126

Capital ratios

As at 31 December	2018	2017
Common Equity Tier 1	22.5%	17.2%
Tier 1	22.5%	17.2%
Total Capital	27.0%	19.2%

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Notes

- (1) 2018 Statement of Financial Position for (i) Total Equity and (ii) Subordinated Debt values prepared under IFRS
- (2) Capital contribution reserve increased as a result of the capital injection
- (3) Intangible assets and goodwill do not qualify as capital for regulatory purposes under CRDIV [CRR Article(s) 36(1)(b), 37].
- (4) Deferred tax assets that rely on future profitability and do not arise from temporary differences net of associated tax liabilities are to be reduced from regulatory capital under Articles 36(1) point (c) and 38 of CRR
- (5) Following the adoption of IFRS 9, these instruments are classified as FVTPL and any gain or loss relating to them is transferred to Retained Earnings
- (6) Tier 2 capital reflects the addition of £30m on new subordinated debt

Capital Resources Requirement

The Pillar 1 capital requirements of CSUK are summarised below, along with the relevant risk-weighted asset ('RWA') values. Credit risk capital requirements and RWA are further broken down by risk-weight methodology and exposure class:

As at 31 December	2018	2018	2017	2017
	RWA	Capital Requirements	RWA	Capital Requirements
Credit and Counterparty Credit Risk				
<i>Standardised Approach</i>				
Institutions	19,926	1,594	10,593	847
Corporates	71,254	5,700	69,506	5,560
Retail	16,696	1,336	12,208	977
Secured by mortgages on immovable property	691,981	55,358	710,481	56,839
Exposure in Default	56,364	4,509	-	-
Speculative immovable property financing	14,060	1,125	90,071	7,206
Other items	155,809	12,465	175,763	14,061
Total Standardised Approach	1,026,089	82,087	1,068,622	85,490
<i>Credit Valuation Adjustment (CVA)</i>				
CVA - Standardised Method	661	53	1,008	81
Total CVA	661	53	1,008	81
(i) Total Credit and Counterparty Credit Risk	1,026,751	82,140	1,069,630	85,570
Market risk (PRA Standard Rules)				
Foreign exchange	3,291	263	5,633	451
(ii) Total Market Risk	3,291	263	5,633	451
Other Risks				
Operational risk - Basic Indicator Approach	195,176	15,614	166,236	13,299
(iii) Total Other Risks	195,176	15,614	166,236	13,299
Total RWA and Capital Requirements (i) - (iii)	1,225,217	98,017	1,241,498	99,320

Countercyclical Capital Buffer ('CCB')

The Financial Policy Committee ('FPC') of the Bank of England is responsible for setting the UK Countercyclical Capital Buffer ('CCB') rate, i.e. the CCB rate that applies to UK exposures of banks, building societies and large investment firms incorporated in the UK. In setting the CCB, the FPC considers a number of core indicators such as credit to GDP ratios. CRDIV, as implemented in the UK, includes a transitional period, during which the FPC is responsible for deciding whether CCB rates set by EEA States should be recognised and for taking certain decisions about third country rates, including whether a higher rate should be set for the purposes of UK institutions calculating their CCBs.

CCBs can be applied at a CS group, sub-consolidated or legal entity basis. CRDIV also includes the potential for a Systemic Risk Buffer ('SRB') which could be similarly applied.

The FPC set a CCB rate of 0.5% for the UK effective from 27 June 2018. This increased to 1.0% on 28 November 2018. CCB rates have also been set by Czech Republic, Hong Kong, Iceland, Lithuania, Norway, Slovakia & Sweden for 2018 that apply to exposures to those countries. No further disclosures are made on CCB on the basis of materiality.

Risk Management

Overview

CSUK's risk management framework is based on transparency, management accountability and independent oversight. Risk management plays an important role in the CSUK'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 CSUK'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, liquidity, market, operational and reputational risks.

Board of Directors

The Board of Directors are responsible for reviewing the effectiveness of CSUK's risk management and systems of financial and internal control. These are designed to manage rather than eliminate the risks of not achieving business objectives, and, as such, offer reasonable but not absolute assurance against fraud, material misstatement and loss. The Board of Directors considers that adequate systems and controls are in place with regard to CSUK's risk profile and strategy and an appropriate array of assurance mechanisms, properly resourced and skilled, has been established to avoid or minimise loss.

In addition, the Board of Directors established a Board Risk Committee ('CSUK RC'). Ordinary meetings of the Board Risk Committee take place at least four times each year.

Recruitment to CSUK's Board of Directors is governed by a nominations policy that is applied consistently to all subsidiaries within the CS group. At a local level, this policy is implemented by a Remuneration and Nominations Committee that evaluates the balance of skills, knowledge and experience of the Board of Directors by reference to the requirements of the Bank, and similarly to consider the skills, knowledge and experience of individual candidates for appointment to the Board. As the Bank is an Equal Opportunities Employer, recruitment at all levels is based on consideration of a diverse range of candidates without discrimination or targets on the basis of any protected category. In addition, the Board has adopted a Diversity Policy, setting out the approach to diversity, including consideration of differences in skills, regional and industry experience, background, race, gender and other distinctions between Directors. Details of the number of directorships held by Board Members are shown in Appendix 3.

The Audit Committee supports the Whistle-Blowing Champion to review and assess the integrity, independence, effectiveness and autonomy of the Bank's policies and procedures on whistleblowing.

Risk Profile associated with Business Strategy

The prudent taking of risk is in line with CSUK's strategic priorities. CSUK's risk appetite establishes a direct link between its strategy and performance management, its risk management and its capital structure. This approach ensures that CSUK incorporates risk factors in decision making, so that actions are compatible with an agreed appetite for risk.

- Risk thresholds are identified for all key risks identified by the risk management process. This will determine the specific maximum or residual risk, as appropriate, that CSUK is willing to accept for each risk category;
- Risk adjusted returns are used to establish the optimal level of risk that CSUK wishes to take with respect to a specific business objective or strategy and reflect a target rate of return and CSUK's capacity to manage the marginal risk arising; and
- Risk thresholds may be established to monitor the actual risk against limits or guidelines, with any breaches triggering appropriate review and corrective actions, if required.

Within the bounds of the overall risk appetite of CSUK, as defined by the limits set by the Board, the CSUK RC and Chief Risk Officer ('CRO') are responsible for setting specific risk thresholds deemed necessary to manage the concentration of risk within individual lines of business and across counterparties.

CSUK defines its appetite for risk through its risk appetite process. Risk constraints are established by key risk category and reported to the CSUK RC and to the Board of Directors. These risk categories are constantly reviewed as part of CSUK's ongoing risk assessment process.

Key risk categories, their mitigation and associated metrics are discussed further in Annex 2, with additional disclosures on CSUK's risk management framework detailed in its 2018 Annual Report.

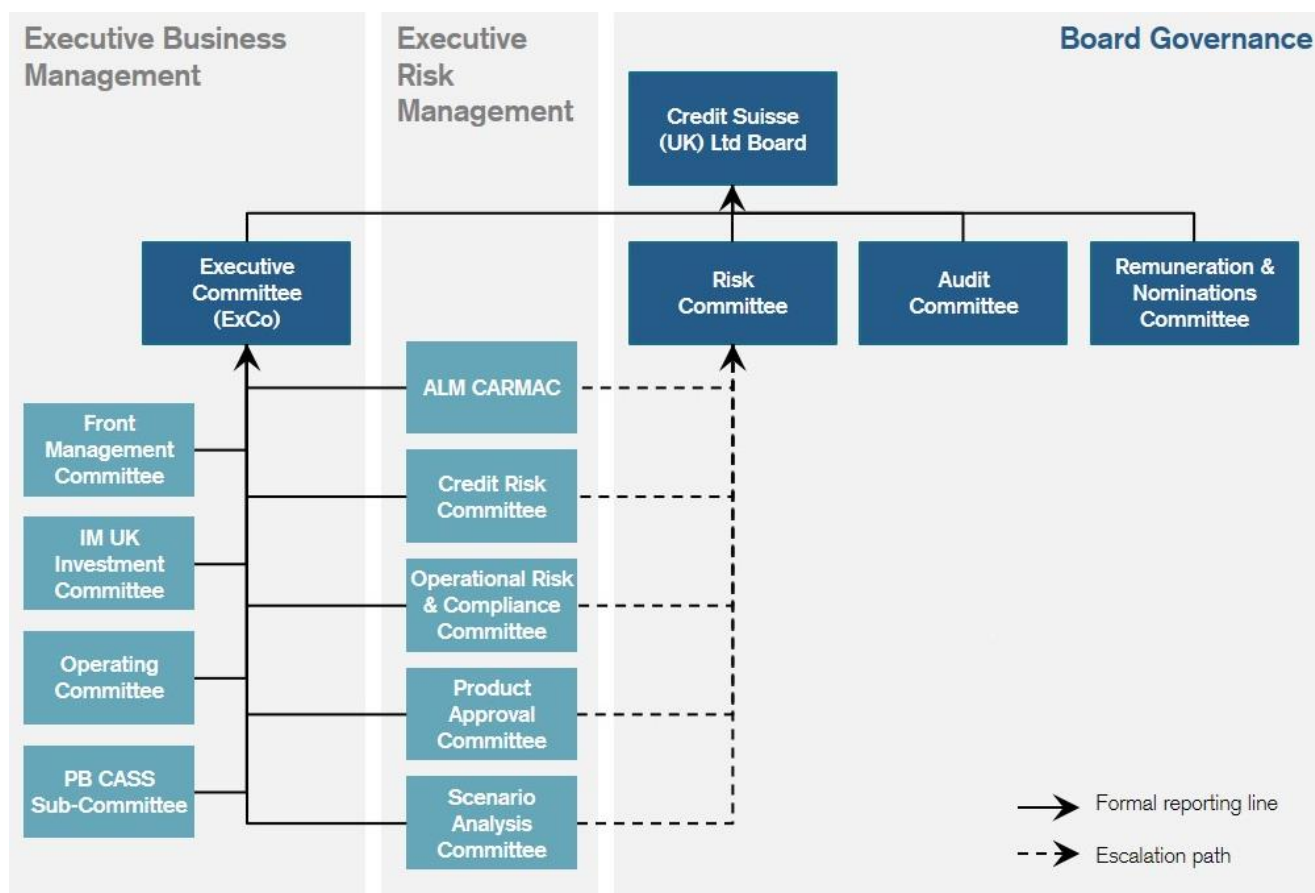
Risk Governance

The Board of Directors sets the overall framework for risk appetite and is advised by the CSUK RC, which is chaired by a non-Executive Director. The purpose of the CSUK RC is to:

- ensure that proper standards for risk oversight and management are established;
- define and implement a risk appetite framework covering, inter alia, credit, operational and market risks and make recommendations to the Board of Directors on risk appetite;
- review and approve the Risk Appetite Statement (including specific risk thresholds for each risk metric, monitoring and escalation process / authority), ICAAP and ILAAP;
- establish risk thresholds for individual businesses within authorities delegated by the Board of Directors; and
- review the risk portfolio, recommend and approve risk thresholds and other appropriate controls to monitor and manage the risk portfolio for the Bank.

CSUK's corporate governance policies and procedures are aligned with the Credit Suisse Group policies. Other relevant corporate governance documents include the CSUK Articles of Association, the CS Group Organisational Guidelines and Regulations, the Charters of the Board of Directors, the Terms of Reference of each CSUK committee and the CS Group Code of Conduct.

The CSUK governance and management structure is outlined in the following chart:



The roles of the key CSUK's committees are outlined below.

Board Committees Overview

Certain responsibilities are delegated to Board Committees, which assist the Board in carrying out its functions and ensure that there is independent oversight of internal control and risk management. Each Board Committee has Terms of Reference, recording the scope of delegated authority and the committee's responsibilities. The Chair of each Board Committee reports to the Board on the matters discussed at Committee meetings.

- **Audit Committee:** The Audit Committee provides oversight of the integrity and adequacy of the financial reporting process, the internal audit process, internal controls and accounting and risk management systems, as defined by applicable law and regulations, articles of association and internal regulations. The Audit Committee is responsible for contributing to the process of the selection and recommendation of the appointment of the External Auditors, including monitoring their qualifications, independence, performance and the suitability of the provision (if any) of non-audit services to the Bank.
- **Risk Committee:** The Risk Committee advises the Board on the risk appetite and provides oversight of the integrity and adequacy of risk management responsibilities including processes and organisational frameworks, as defined by

applicable law and regulation, articles of association and internal regulations. In particular, the committee reviews and assesses the identification, measurement and management of the various risks within the entity, as presented in the ICAAP and ILAAP.

- **Remuneration and Nominations Committee:** Advises and makes recommendations to the Group Compensation Committee on matters relating to remuneration for employees of CSUK including members of the CSUK Executive Committee ('CSUK ExCo'), senior officers in Risk and Compliance and other Code Staff, as well as on the compliance of the Group Compensation Policy with all relevant UK compensation regulations.

For nominations purposes, the committee is responsible for the identification and recommendation for approval, by CS Group AG /CS AG, candidates to fill vacancies on the Board of CSUK, making recommendations to the Board concerning the role of Chair and membership of the Board Committees, in consultation with the Chairs of those committees, and periodically leading a Board evaluation process.

Executive Risk Management Committees Overview

Management Committees support the CEO and Executive Directors in the implementation of strategy as set by the Board. The principal Management Committee is the CSUK Executive Committee ('CSUK ExCo'), chaired by the CEO of CSUK, and is ultimately responsible for the management of the CSUK business and the execution of the strategy set by the Board. As a decision making forum, it may receive proposals escalated from other executive committees or from business unit managers.

- **Credit Risk Committee:** The members of the Credit Risk Committee consist of senior management. It meets to discuss issues and risks relating to the credit exposures arising from the Bank's business activities. The Committee is responsible for approving, monitoring and controlling all credit exposures of CSUK and managing the risks associated with the loan portfolio, including reviewing, and monitoring adherence to, CSUK's Credit Policies and Credit Risk Appetite Framework.
- **ALM Capital Allocation and Risk Management Committee ('ALM CARMC'):** The CSUK ALM CARMC is chaired by the CSUK CFO. It is responsible for the management of Asset and Liability Management ('ALM') risks, including: the CSUK capital and liquidity position vs. internal and external limits; current, future and stressed liquidity and capital positions of CSUK; and, the impact of current and future regulatory changes on the capital and liquidity position. ALM CARMC advises the CSUK Board RC in respect of capital and liquidity stress testing, capital and liquidity buffers and the setting of risk thresholds, and has oversight of the ICAAP and ILAAP processes.
- **Operational Risk ('OpRisk') and Compliance Committee:** Is chaired by the Head of Operational Risk Management and is responsible for maintaining sound and robust controls by acting as a central business governance committee to discuss, understand, measure and assess key operational and compliance risks to the Business and to assist EXCO in the management of these risks. The committee recommends risk appetite controls for OpRisk, monitors Key Risk Indicators ('KRIs') and Key Control Indicators ('KCI's'), periodically assesses the effectiveness of the Operational Risk Framework to ensure ongoing compliance with internal requirements and regulations, and serves as a forum for discussing and escalating emerging risks.
- **Product Approval Committee ('PAC'):** Is chaired by the Head of A&S UK and is responsible for reviewing, identifying and considering all matters relating to new investment products and services developed and/or offered for sale by CSUK as well as managing the risks associated with the CSUK product platform such as conduct risk, business risk and operational risk.
- **Scenario Analysis Committee (SAC):** The purpose of SAC is to review and approve stress testing model design, scenarios, methodology and results as per the entity's stress testing model. The committee also reviews independent model validations for CSUK stress testing.

Risk Organisation

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.

Risk Functions

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

CSUK's independent risk management is headed by CSUK's CRO, who reports to CSUK's CEO. The CRO is responsible for overseeing CSUK's risk profile across all risk types; additionally, the Chair of the Risk Committee (a NED) is responsible for ensuring independence of the risk management function.

The risk function is responsible for providing oversight and establishing a framework to monitor and manage all risk matters.

To manage the principal risks, the CRO function comprises of:

- Credit Risk Management;
- Liquidity Risk Management;
- Operational Risk Management;
- Reputational Risk Management; and
- Market Risk Management;

Furthermore, an Enterprise Risk Management function is responsible for covering cross-business and cross-functional approaches towards identifying and measuring risks as well as defining and managing risk appetite levels. The CRO is responsible for providing risk management oversight and establishing an organisational basis to manage all risk management matters through its primary risk functions:

- Credit Risk Management is responsible for approving credit limits, monitoring, and managing individual exposures, and assessing and managing the quality of credit portfolios;
- Treasury and Liquidity Risk Management is responsible for assessing and monitoring the market and liquidity risk profiles of the Bank and recommends corrective action, where necessary;
- Operational Risk Management is responsible for the identification, assessment and monitoring of operational risks relating to systems, people and processes and external events including cyber, conduct and regulatory risks; and
- Reputational Risk Management is key to identifying both internal and external incidents which may result in damage to the Bank's reputation.
- Market Risk Management is responsible for managing FX and interest rate exposures to specific risk thresholds;

These areas form part of a matrix management structure with reporting lines into both the CRO and the relevant IWM Risk Head.

The risk function is also responsible for the risk assessment of business critical activities such as business continuity, technology risk, reputational and conduct risk management.

CS Group Committee support: While local committees are implemented at a senior management level to support risk management for the entity, CSUK get further support from CS Group committees. For example, CS Group's Reputational Risk and Sustainability Committee sets policies and reviews processes and significant cases relating to reputational risks. The CS Group Risk Processes and Standards Committee ('RPSC') is responsible for establishing and approving standards regarding risk management and risk measurement, including methodology and parameters across the CS group. Finally the CS Group 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.

Compliance Function

The Bank's Compliance function is headed by the Chief Compliance Officer ('CCO') and is mandated with the management of Compliance, Regulatory and Conduct risks for the Bank. The function monitors bank activities on all levels in order to minimise risks to Credit Suisse's reputation and the violation of policies, laws or regulations and poor conduct. It also helps ensure transparency of all regulatory interactions of the bank and assesses potential impact and implementation of regulatory developments.

The CSUK Compliance organisation sits within the IWM UK Compliance function and is responsible for managing compliance and regulatory risks by providing independent, effective and robust challenge on compliance and regulatory matters. This includes establishing relevant policies and procedures, delivering compliance training and education programmes, providing day-to-day compliance advice and assistance, overseeing the implementation of an adequate monitoring, surveillance and testing program and escalating potential compliance and/or control issues.

The CSUK compliance function is supported by other Compliance functions including but not limited to: the Financial Crime Compliance ('FCC') function, which reports to the CSUK Money Laundering Reporting Officer (MLRO) and Compliance Core Services (inc monitoring, testing, trade surveillance, and anti-fraud), and CCO Investigations.

FCC is responsible for, inter alia:

- Politically Exposed Persons ('PEP') and high risk client assessments
- Prevention of financial crime (prevention of money laundering, , terrorist financing and corruption)
- Ensuring adherence to policies regarding sanctions and anti-bribery & corruption
- AML transaction monitoring
- Control Testing Assurance ('CTA') of client on-boarding and periodic review processes.
- AML investigations and filing of reports with local authorities (as required)

MST is responsible for:

- Monitoring and testing against key global policies such as cross border and suitability and appropriateness

Risk Culture

The Bank bases its business operations on conscious and disciplined risk-taking. We believe that independent risk management, compliance and audit processes with proper management accountability are critical to the interests and concerns of our stakeholders. Our risk culture is supported by the following principles:

- We establish a clear risk appetite that sets out the types and levels of risk we are prepared to take;
- Our risk management and compliance policies set out authorities and responsibilities for taking and managing risks;
- We actively monitor risks and take mitigating actions where they fall outside accepted levels;
- Breaches of risk limits are identified, analysed and escalated, and large, repeated or unauthorized exceptions may lead to terminations, adverse adjustments to compensation or other disciplinary action; and
- We seek to establish resilient risk constraints that promote multiple perspectives on risk and reduce the reliance on single risk measures.

The Bank actively promotes a strong risk culture where employees are encouraged to take accountability for identifying and escalating risks and for challenging inappropriate actions. The businesses are held accountable for managing all of the risks they generate, including those relating to employee behaviour and conduct, in line with our risk appetite. Expectations on risk culture are regularly communicated by senior management, reinforced through policies and training, and considered in the performance assessment and compensation processes and, with respect to employee conduct, assessed by formal disciplinary review committees.

The Bank seeks to promote responsible behaviour through the Group's Code of Conduct, which provides a clear statement on the conduct standards and ethical values that we expect of our employees and members of the Board, so that we maintain and strengthen our reputation for integrity, fair dealing and measured risk-taking. In addition, our six conduct and ethics standards, which include client focus, meritocracy, stakeholder management, accountability, partner and transparency, are a key part of our effort to embed our core ethical values into our business strategy and the fabric of our organization.

The conduct and ethics standards are designed to encourage employees to act with responsibility, respect, honesty and compliance to secure the trust of our stakeholders. Initiatives in this area have provided employees with practical guidance on careful and considered behaviour and the importance of acting ethically and learning from mistakes. Our employee performance assessment and compensation processes are linked to the conduct and ethics standards and the Group's Code of Conduct.

Risk Management Framework

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. The primary objectives of risk management are to protect the Bank's financial strength and reputation, while ensuring that capital and liquidity are 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, liquidity, operational, reputational and market risks.

The CSUK Board of Directors is responsible for the oversight of the risk management of the business and the CRO assists and supports the Board of Directors in carrying out this responsibility. CSUK operates a 'Three Lines of Defence' model within a governance and policy framework described below.

■ First Line of Defence

The first line of defence is the front office and business units, who are responsible for pursuing suitable business opportunities within the strategic risk objectives and compliance requirements of CSUK. Its primary responsibility is to ensure compliance with relevant legal and regulatory requirements and maintain effective internal controls.

First Line of Defence Support ('FLDS') reports to the CSUK COO. Its objectives are to ensure that existing and emerging risks in CSUK's business are identified and that controls are established to effectively mitigate and manage these risks. The Head of FLDS also chairs the Operational Risk and Compliance Committee and partners with other teams and functions in CSUK to raise risk awareness and embed accountability.

■ Second Line of Defence

The second line of defence includes functions such as risk, compliance and legal. It articulates standards and expectations for the effective management of risk and controls, including advising on applicable legal and regulatory requirements and publishing related policies, and monitors and assesses compliance with regulatory and internal standards. The second line of defence is separate from the front office and includes independent control functions responsible for reviewing, measuring and challenging front office activities and producing independent assessments and risk management reporting for senior management and regulatory authorities.

■ Third Line of Defence

The third line of defence is the internal audit function, which monitors the effectiveness of controls across various functions and operations, including risk management and governance practices.

Credit Risk

Overview

CSUK primarily undertakes secured lending activity (and a limited amount of unsecured lending) to a client base that comprises individuals, trusts and small corporates, as well as Operating Companies in approved jurisdictions. Collateral is pledged via effective security agreements and charges over properties to support the two categories of lending:

- Lombard, which is primarily uncommitted lending collateralised by cash, marketable securities, or guarantees; and
- Real estate finance for commercial and residential properties, including buy-to-let and development finance.

Historically, provisions against clients in default have been low and concentration risk is managed via limits setting and sub-participation to CS Group branches.

Credit Limits, Approval and Reviews

Effective credit risk management requires a structured process to assess, monitor and manage risk on a consistent basis. Accordingly, CSUK gives careful consideration of any proposed granting of credit, the setting of specific risk thresholds, diligent ongoing monitoring during the life of the exposure, active use of credit risk mitigation tools and a disciplined approach to recognising credit impairment.

The CSUK credit risk management framework is regularly refined and covers all banking business areas that are exposed to credit risk. The framework is designed to cover all the credit exposures in the banking business and comprises seven core components:

- an individual client rating system;
- a transaction rating system;
- a client credit limit system;
- country, regional, sector and client rating concentration limits;
- a risk-based pricing methodology;
- active credit portfolio management; and
- a credit risk provisioning methodology

Credit risk is evaluated through a credit request and approval process, ongoing credit and counterparty monitoring and a credit quality review process. Experienced credit officers analyse credit requests and assign internal ratings based on their analysis and evaluation of the client's creditworthiness and the type of credit transaction.

Senior credit managers make credit decisions on a transaction-by-transaction basis, at authority levels reflecting the size and complexity of the transactions and the overall exposures to counterparties and their related entities. These approval authority levels are set both at a group functional level and by each legal entity.

A system of credit limits is used to manage individual counterparty credit risk. Other limits are also established to address concentration issues in the portfolio and limits for certain products. Credit exposures to individual counterparties or product groupings and adherence to the related limits are monitored by credit officers and other relevant specialists.

In addition, credit risk is regularly reviewed by the Credit Risk Committee taking current market conditions and trend analysis into consideration. The Committee regularly analyses diversification and concentrations in selected areas.

A credit quality review process provides an early identification of possible changes in the creditworthiness of clients and includes asset and collateral quality reviews, business and financial statement analysis and relevant economic and industry studies. Other key factors considered in the review process include current and projected business and economic conditions, historical experience, regulatory requirements and concentrations of credit by product and counterparty rating. Regularly updated watch-lists and review meetings are used for the identification of counterparties where adverse changes in creditworthiness could occur.

Regular watch-list meetings are used to determine whether certain positions should be transferred to, and managed by Recovery Management International ('RMI'), an independent function that is responsible for setting the strategy and determining provision levels for impaired facilities. A systematic provisioning methodology is used to identify potential credit risk-related losses and impaired transactions are classified as potential problem exposure, non-performing exposure, or non-interest earning exposure. Such provision levels are reviewed on an ongoing basis by RMI with any proposed changes advised to CSUK. The credit provisions review committee ('CPRC'), provide a high level review of the quarterly credit provisions and confirm the appropriateness of the Allowance for Loan Losses. In addition, trends and outlook are discussed.

Credit Risk Mitigation and Collateral

Collateral is pledged via effective security agreements and charges over properties to support both mortgage and Lombard lending activities. CSUK has a very limited appetite for unsecured credit facilities.

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The policies and processes for collateral valuation and management are defined 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.

Collateral securing loan transactions primarily includes:

- Physical collateral (real estate for mortgages) – mainly residential, but also multi-family buildings, and commercial properties (office, retail units, serviced apartments and student housing); and
- Financial collateral pledged against loans collateralised by securities (mostly cash and marketable securities), and bank guarantees from other CS legal entities.

Real Estate Collateral

Legal charge over and periodic re-valuation of the real estate collateral is a key risk management tool for financing transactions through mortgage lending. Subject to a satisfactory valuation report, CRM will issue a facility letter (FL) to the client, incorporating the information set out in the term sheet/key facts illustration, including the estimated costs incurred for the mortgage contract. Formal documentation may include:

- Facility Agreement
- Legal Charge (issued by Solicitors)
- Personal Guarantee of the beneficial owner, when lending to a SPV
- Security Agreement
- Board Resolution
- Charge over shares of the direct property holding company (if owned by a SPV)
- Deed of confirmation (This document confirms that the Legal Charge is still in place and is only issued for renewed facilities in certain scenarios.)

For residential mortgages exceeding EUR 3m, the Bank must obtain a valuation of the property from an independent valuer every three years. For all other mortgages, an annual review and trend analysis of the UK real estate market is undertaken by Credit Risk Management to assess whether a revaluation is necessary.

The criteria used for the analysis includes the following:

- The level of activity in the market;
- Price trends;
- The impact of interest rate levels on the property market; and
- The spread of geographic locations within the portfolio and the requisite comfort level.

Lombard Collateral

Collection of financial collateral is a key risk management tool for securities financing transactions through Lombard lending. 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 managing a large portfolio of collateral assets and liabilities. CSUK's strategy with respect to collateral is subject to a robust collateral policy, which details standards of acceptable collateral (including collateral type, liquidity, quality, and jurisdiction), valuation frequency, haircuts and agreement type. Utilisation under the facility is restricted to the lower of the credit limit or the collateral value held. Additionally, thresholds are established for the management of collateral concentrations, in line with CSUK's business strategy and risk appetite.

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 internally calculated 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.

Collateral held against financial guarantees and loan commitments typically includes securities and inward bank guarantees (almost exclusively from other parts of the CS group).

Netting

CSUK only applies on-balance sheet netting to financial assets and liabilities where it:

- has a legally enforceable right to set off the recognised amounts; and
- intends to settle on a net basis, or to realise the asset and liability simultaneously.

For intra-group transactions, CSUK's net position on multiple transactions with the same counterparty is legally protected by 'master netting agreements'. Such agreements ensure that the net position is settled in the event of default of either counterparty or effectively limit credit risk on gross exposures.

Regulatory Risk Weighting Approach

CSUK applies the Standardised Approach in determining the risk weights applied for the calculation of regulatory capital requirements for credit and counterparty risk under Pillar 1. Under this approach, ratings published by External Credit Assessment

Institutions ('ECAIs') are mapped to Credit Quality Steps ('CQS') according to mapping tables laid down by the European Banking Authority ('EBA'). The CQS value is then mapped to a risk weight percentage. The ECAI used by CSUK for all types of exposures is Standard & Poor's.

Credit Exposures under the Standardised Approach

The next tables analyse credit exposures treated under the Standardised Approach according to CQS and exposure class, before and after CRM:

Credit Quality Step Analysis of pre-CRM Exposure and Capital Deductions under the Standardised Approach (£000s)

As at 31 December 2018

Standardised Approach - Credit Exposures	Credit Quality Step						Unrated	Total	Deduction from Capital Resources
	1	2	3	4	5	6			
Central governments and central banks	4,095	-	-	-	-	-	-	4,095	-
Institutions	-	18,105	-	-	-	-	21,342	39,447	-
Corporates	-	-	-	-	-	-	115,840	115,840	-
Retail	-	-	-	-	-	-	36,198	36,198	-
Secured by mortgages on immovable property	-	-	-	-	-	-	1,746,571	1,746,571	-
Exposure in Default	-	-	-	-	-	-	56,364	56,364	-
Speculative immovable property financing	-	-	-	-	-	-	12,047	12,047	-
Other items	-	-	-	-	-	-	283,295	283,295	-
Total	4,095	18,105	-	-	-	-	2,271,657	2,293,857	-

Credit Quality Step Analysis of post-CRM Exposure and Capital Deductions under the Standardised Approach (£000s)

As at 31 December 2018

Standardised Approach - Credit Exposures	Credit Quality Step						Unrated	Total	Deduction from Capital Resources
	1	2	3	4	5	6			
Central governments and central banks	4,095	-	-	-	-	-	-	4,095	-
Institutions	-	18,105	-	-	-	-	21,342	39,447	-
Corporates	-	-	-	-	-	-	71,254	71,254	-
Retail	-	-	-	-	-	-	22,261	22,261	-
Secured by mortgages on immovable property	-	-	-	-	-	-	1,727,577	1,727,577	-
Exposure in Default	-	-	-	-	-	-	56,364	56,364	-
Speculative immovable property financing	-	-	-	-	-	-	12,047	12,047	-
Other items	-	-	-	-	-	-	151,318	151,318	-
Total	4,095	18,105	-	-	-	-	2,062,163	2,084,363	-

Credit Exposures, Risk-weighted Assets and Capital Requirements

The following table contains an analysis of CSUK's credit exposures, risk-weighted assets and capital requirements by exposure class:

Credit Exposures and RWA by Exposure Classes (£000s)

As at 31 December 2018

Credit Exposures by Regulatory Approach:	Exposure at Default (pre-CRM)		RWA		Capital Requirements
	Average Exposure for Year	Year-end Exposure	Average for Year	Year-end	Year-end
<i>Standardised Approach</i>					
Central governments and central banks	3,632	4,095	-	-	-
Institutions	31,629	39,447	15,948	19,926	1,594
Corporates	115,069	115,840	70,177	71,254	5,700
Retail	35,752	36,198	15,213	16,696	1,336
Secured by mortgages on immovable property	1,821,142	1,746,571	687,867	691,981	55,358
Exposure in Default	-	56,364	-	56,364	4,509
Speculative immovable property financing	17,655	12,047	20,857	14,060	1,125
Other items	278,092	283,295	161,612	155,809	12,465
Total Standardised Approach	2,302,970	2,293,857	971,675	1,026,089	82,087
Total	2,302,970	2,293,857	971,675	1,026,089	82,087

The following table contains a geographical analysis of credit exposures (before the effects of credit risk mitigation):

Credit exposures - Analysed by Geographical Region (£000s)

As at 31 December 2018

Credit Exposures by Regulatory Approach:	UK	Other Europe	Americas	Middle East and Africa	Asia Pacific	Total
<i>Standardised Approach</i>						
Central governments and central banks	4,095	-	-	-	-	4,095
Institutions	35	39,404	7	-	-	39,447
Corporates	31,682	55,729	24,207	1,220	3,002	115,840
Retail	32,725	1,760	7	656	1,050	36,198
Secured by mortgages on immovable property	675,383	367,432	448,980	108,872	145,904	1,746,571
Exposures in Default	37,721	14,823	3,820	-	-	56,364
Speculative immovable property financing	-	12,047	-	-	-	12,047
Other items	208,411	53,176	4,268	12,943	4,497	283,295
Total Standardised Approach	990,053	544,371	481,289	123,690	154,454	2,293,857
Total	990,053	544,371	481,289	123,690	154,454	2,293,857

The following table contains an analysis of credit exposures by type of industry (before the effects of credit risk mitigation):

Credit Exposures - Analysed by Industry (£000s)

As at 31 December 2018					
Credit Exposures by Regulatory Approach:	Financial	Commercial	Consumer	Public Authorities	Total
<i>Standardised Approach</i>					
Central governments and central banks	-	-	-	4,095	4,095
Institutions	39,446	-	-	-	39,446
Corporates	62,763	43,794	9,283	-	115,840
Retail	351	0	35,846	-	36,198
Secured by mortgages on immovable property	301,976	422,233	1,022,362	-	1,746,571
Exposure in Default	-	3,820	52,544	-	56,364
Speculative immovable property financing	-	12,047	-	-	12,047
Other items	45,222	13	238,060	-	283,295
Total	449,759	481,908	1,358,095	4,095	2,293,857

The following table contains an analysis of credit exposures by residual maturity (before the effects of credit risk mitigation):

Credit Exposures - Analysed by Residual Maturity (£000s)

As at 31 December 2018				
Credit Exposures by Regulatory Approach:	Up to 12 months	1 - 5 years	Greater than 5 years	Total
<i>Standardised Approach</i>				
Central governments and central banks	4,095	-	-	4,095
Institutions	39,447	-	-	39,447
Corporates	109,069	6,770	-	115,840
Retail	36,198	-	-	36,198
Secured by mortgages on immovable property	369,920	1,354,995	21,656	1,746,571
Exposures in Default	41,287	15,077	-	56,364
Speculative immovable property financing	-	12,047	-	12,047
Other items	283,295	-	-	283,295
Total Standardised Approach	883,312	1,388,889	21,656	2,293,857
Total	883,312	1,388,889	21,656	2,293,857

Impaired and Past Due Exposures, Credit Risk Adjustments and Specific and General Credit Risk Adjustments

CSUK's accounting policies relating to impairment can be found in the 2018 Annual Report, Note 2, along with the definition for accounting purposes of 'impaired'. Information on impairment losses can be found in Note 16.

The following tables analyse impaired loans and credit loss allowances and by significant industry and geographical areas:

Industry Distribution of Allowances and Impaired Loans (£000s)

As at 31 December 2018						
Industry	Specific allowances	Inherent credit loss allowances	Total allowances	Loans with specific allowances	Loans with inherent credit loss allowances	Total impaired loans
Financial	-	-	-	-	-	-
Commercial	-	-	-	-	-	-
Consumer	-	-	-	1,375	-	1,375
Public Authorities	-	-	-	-	-	-
Total	-	-	-	1,375	-	1,375

Geographic Distribution of Allowances and Impaired Loans (£000s)

As at 31 December 2018						
Geography	Specific allowances	Inherent credit loss allowances	Total allowances	Loans with specific allowances	Loans with inherent credit loss allowances	Total impaired loans
UK	-	-	-	-	-	-
EMEA (excluding UK)	-	-	-	1,375	-	1,375
Americas	-	-	-	-	-	-
Asia Pacific	-	-	-	-	-	-
Total	-	-	-	1,375	-	1,375

Effect of a Credit Rating Downgrade

CSUK itself is not a rated entity. CSUK relies on other companies in the CS group for funding and capital, and therefore would be affected by any change to the ratings of those companies. The impact of downgrades of the CS group 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 CSUK's liquidity and funding needs.

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. CSUK enters into derivative contracts primarily in connection with managing its liquidity requirements and hedging residual market risk.

The CRR framework permits regulated firms to use the Internal Model Method ('IMM') and the supervisory non-model approaches to compute their counterparty credit exposure on OTC derivatives. CSUK uses the non-modelled Mark to Market Method.

Net Derivatives Credit Exposure (£000s)

As at 31 December 2018					
	Gross positive fair value of contracts ⁽ⁱ⁾	Netting benefits	Netted current credit exposure	Collateral held	Net derivatives credit exposure
CCR Mark-to-market Method	24,622	(4,561)	20,061	-	20,061
Internal Model Method	-	-	-	-	-
Total	24,622	(4,561)	20,061	-	20,061

(i) including Gross PFCE

Exposures covered by Credit Risk Mitigation

The following table analyses the amount of regulatory exposure covered by funded credit risk mitigation, reported by risk weight methodology and exposure class:

Analysis of Credit Exposures covered by Funded Credit Protection (£000s)

As at 31 December 2018	
Credit exposures by regulatory approach:	Financial Collateral
Standardised Approach	
Institutions	-
Corporates	44,585
Secured by mortgages on immovable property	18,994
Retail	13,936
Other items	131,978
Total Standardised Approach	209,494
Total	209,494

CSUK has no exposures covered by unfunded credit risk mitigation.

Liquidity Risk

CSUK manages liquidity risk using CS group's global liquidity risk framework, which takes into consideration the liquidity time horizon up to 30 days (including any low points within the 30-day period) and 90 days. The framework ensures CSUK's compliance with group liquidity risk standards and promotes consistent liquidity risk management across CS group entities. Adherence to this metric is monitored regularly to ensure CSUK's compliance with the Board's agreed risk appetite.

In addition, auxiliary metrics are risk managed, such as currency coverage ratios – measuring liquidity risk on a single currency level – as well as the reliance CSUK places on other legal entities within Credit Suisse.

CSUK also complies with the regulatory Liquidity Coverage Ratio (LCR) requirements by maintaining an adequate stock of unencumbered High Quality Liquid Assets (HQLA) that can be converted easily and immediately into cash to meet its liquidity needs for a 30 calendar day liquidity stress scenario.

Liquidity Coverage Ratio (LCR) (£ million)

Quarter ending on	Total Adjusted Value			
	31/03/2018	30/06/2018	30/09/2018	31/12/2018
Number of data points used in the calculation of averages	12	12	12	12
Liquidity Buffer	637	627	633	742
Total Net Cash Outflows	375	365	412	485
Liquidity Coverage Ratio (%)	180%	181%	163%	154%

Market Risk

Overview

CS group has policies and processes in place to ensure that market risk is captured, accurately modelled and reported, and effectively managed. Furthermore, CSUK adopts these policies from a legal entity perspective. Trading and non-trading portfolios are managed at various organisational levels, from the overall risk positions at the CS group level down to specific portfolios. CS group uses market risk measurement and management methods in line with industry standards. Measurement 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.

CS group'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.

Exposure to Market Risk

At the CSUK level, the Bank has a policy of not taking proprietary market risk positions. Trading transactions are generally entered into on either an agency or back-to-back basis. Therefore, exposure to market risk typically arises from three sources:

- structural interest rate and structural foreign exchange (FX) risk arise primarily from the loan and deposit books (a core value proposition and service offering). CSUK will avoid carrying material open interest or FX rate positions;
- FX risk arising from trades undertaken on behalf of clients. CSUK will aim to ensure net FX risks are 'flat' or matched currency positions, resulting in minimal net daily profit and loss; and
- exposure to settlement risk arising from trades executed on behalf of clients on a Delivery Versus Payment (DVP) basis. CSUK's aggregate risk appetite for market risk arising from DVP services is subject to gross notional (one-way) and VaR thresholds, which are quantified in the Risk Appetite and monitored on a daily basis. CSUK has legal netting agreements with external parties through which we clear DVP transactions for clients. Furthermore, all customer transactions are governed by our Terms & Conditions, which include standard netting agreements.

Criteria for Inclusion in the Trading Book

CSUK falls within the scope of the CS group's Trading Book Policy. The policy sets out the principles for the classification of products between the Trading Book and Banking Book for the purpose of regulatory capital and market risk measurement. Specifically, it sets out the criteria which must be met in order to allocate positions to the Trading Book. The policy is common to all entities within the CS group and adherence to its requirements is mandatory.

The criteria for Trading Book classification are, broadly, that the position must be a transferable or hedgeable financial instrument; that there must be trading intent or a hedging relationship with another Trading Book item; and that daily fair value methodology must be applied for regulatory and risk management purposes.

Market Risk Capital Requirements (£000s)

As at 31 December 2018	RWA	Capital Requirements
<i>PRA Standard Rules</i>		
Foreign exchange	3,291	263
Total Market Risk RWA and Capital Requirements	3,291	263

Interest Rate Risk in the Banking Book (IRRBB)

Overview

Management monitors and manages interest rate risk in the banking book by established systems, processes and controls. Risk sensitivity figures are provided to estimate the impact of changes in interest rates, which is one of the primary ways in which these risks are assessed for risk management purposes. In addition, CSUK confirms that the economic impacts of adverse parallel shifts in interest rates of 200 basis points are significantly below the regulatory capital threshold used by regulators to identify excessive levels of non-trading interest rate risk. This risk is not therefore capitalised within the Pillar 1 regime: rather, it is analysed within the ICAAP and addressed in the PRA's determination of the CSUK's Pillar 2 capital requirements.

Major Sources of Interest Rate Risk in the Banking Book

The interest rate risk exposures in the non-trading positions (synonymously used to the term "banking book") mainly arise from retail banking, and related funding activities, with the majority of interest rate risk centrally managed by Treasury centrally on a portfolio basis within approved limits using appropriate hedging instruments. Credit Suisse Group AG's Board of Directors defines interest rate risk appetite for the Group and its subsidiaries, including CSUK, on an annual basis. Within those limits, the ALM CARMC and CSUK Board of Directors define a risk control cascade.

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 present 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 present 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.
- Value-at-Risk (VaR): 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. For risk management purposes, the Group uses a VaR measure based on a one-day holding period with a 98% confidence level where the considered historical values are time-weighted using a weighting scheme that assigns lower weights to observations further in the past.
- Economic Risk Capital (ERC): ERC is a statistical risk indicator representing the capital the bank should hold to support the risks incurred. ERC represents 1-year time horizon with a 99% confidence level for risk management purposes.
- 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.

Monitoring and Review

The limits and flags defined by books, collections of books, businesses or legal entities relating to interest rate risk in the banking book are monitored by TLRM at least on a monthly basis (if deemed necessary or suitable, the monitoring may be as frequent as daily), by using the metrics and methodologies outlined above. In case of breaches, this is escalated to the limit-setting body. The Group assesses compliance with regulatory requirements regarding appropriate levels of non-trading interest rate risk by estimating the economic impact of adverse 200 basis point parallel shifts in yield curves and adverse interest rate shifts and then relating those impacts to the total eligible regulatory capital. Consistent with regulatory requirements, TLRM ensures that the economic value impact of this analysis is below the regulatory threshold to ensure there are no requirements to hold additional capital. This analysis is performed for the CSUK on a monthly basis.

Fair Value Impact of Change in Interest Rates on Non-Trading Positions (£ million equivalent)

As at 31 December 2018

Basis points movement + / (-)	USD	GBP	EUR	CHF	Other	Total
200	(0.1)	(1.8)	0.2	0.0	0.0	(1.7)
(200)	0.1	1.8	(0.2)	0.0	0.0	1.7

Leverage Ratio

Overview

CSUK is required to monitor and disclose its leverage ratio in accordance with the CRR definition, as amended by the European Commission Leverage Ratio Delegated Act. In November 2016, the European Commission proposed amendments to CRR, including a binding leverage ratio for certain EU financial institutions.

In conjunction with other regulatory and capital metrics such as RWA levels, leverage ratios are actively monitored and managed within CSUK's capital and risk management governance processes. Similar to the CS group level, internal targets (including the setting of internal management buffers where required) are developed and monitored and this process is flexible, reflecting changing regulatory expectations.

Longer-term strategies will consider the leveraging or deleveraging impacts resulting from both business development and the impact of future regulatory change to ensure CSUK continues to meet external and internal expectations. CSUK's stress testing framework will consider the impact on leverage ratios of both internal and regulator-prescribed stress tests.

Factors impacting on Leverage Ratio during the Period

CSUK's leverage ratio increased to 7.8% as at 31 December 2018 from 6.3% as at 31 December 2017.

Summary Reconciliation of Accounting Assets and Leverage Ratio Exposures (£000s)

As at 31 December 2018	
Total assets as per published financial statements	3,502,385
Adjustments for derivative financial instruments	14,164
Adjustment for off-balance sheet items	21,684
Other adjustments	(21,631)
(i) Total On-balance Sheet Exposures (excluding Derivatives and SFTs)	3,516,602

Leverage Ratio Common Disclosure (£000s)

As at 31 December 2018	
<i>On-balance sheet exposures</i>	
On-balance sheet items (excluding derivatives and SFTs, but including collateral)	2,462,773
Asset amounts deducted in determining Tier 1 capital	(21,631)
(i) Total On-balance Sheet Exposures (excluding Derivatives and SFTs)	2,441,143
<i>Derivative exposures</i>	
Replacement cost associated with all derivatives transactions	5,647
Add-on amounts for PFE associated with all derivatives transactions	14,414
(ii) Total Derivative Exposures	20,061
<i>Securities financing transaction exposures</i>	
Gross SFT assets, after adjusting for sales accounting transactions	1,033,715
(iii) Total Securities Financing Transaction Exposures	1,033,715
<i>Off-balance sheet exposures</i>	
Off-balance sheet exposures at gross notional amount	53,480
Adjustments for conversion to credit equivalent amounts	(31,797)
(iv) Total Off-balance Sheet Exposures	21,684
Tier 1 Capital	275,659
Total Exposures ((i) - (iv))	3,516,603
Leverage Ratio	7.8%

Split of On-Balance Sheet Exposures by Banking and Trading Book (Excluding Derivatives and SFTs) (£000s)

As at 31 December 2018	
Total on-balance sheet exposures (excluding derivatives, SFTs, and exempted exposures), of which:	2,462,773
Trading book exposures	-
Banking book exposures, of which:	2,462,773
Exposures treated as sovereigns	4,095
Institutions	266,579
Secured by mortgages of immovable properties	1,695,984
Retail exposures	36,198
Corporate	110,079
Exposures in default	56,364
Items associated with particularly high risk	12,047
Other exposures (eg equity, securitisations, and other non-credit obligation assets)	281,427

Scenario Analysis

Stress testing complements other risk measures by capturing CSUK's exposure to unlikely but plausible events, which can be expressed through a range of significant moves across multiple financial markets, impacting CSUK's overall capital position. The majority of scenario analysis calculations performed are specifically tailored toward the risk profile of the business, and limits may be established if they are considered the most appropriate control. Additionally, to identify areas of risk concentration and potential vulnerability to stress events at CSUK level, a set of scenarios are used which assess the impact of significant, simultaneous movements across a broad range of markets and asset classes.

Stress testing is a fundamental element of CSUK's risk control framework, with results used in risk appetite discussions and strategic business planning, and to support the CSUK's internal capital adequacy assessment. Stress test scenarios are conducted on a regular basis and the results are reported to the Board of Directors and senior management.

CSUK's stress testing framework is governed through a dedicated steering committee that operates across CS group as well as the CSUK Scenario Analysis Committee. Scenarios can be defined with reference to historic events or based on forward-looking, hypothetical events that could impact CSUK's capital, liquidity or profitability. The scenarios are reviewed and updated as markets and business strategies evolve, and new scenarios are designed by the CS Group Global CRO in collaboration with Global Research and business divisions.

Asset Encumbrance

Overview

CSUK does not generally undertake transactions which involve the encumbrance of assets to finance trading or other activity. The encumbered amounts disclosed below relates to CSUK's cash ratio deposit held with the Bank of England and the amounts deposited within CS group for the purposes of margining.

Assets - Encumbered and Unencumbered Asset Analysis (£000s)

As at 31 December 2018						
	Carrying amount of encumbered assets	Fair value of encumbered assets	Carrying amount of unencumbered assets	Fair value of unencumbered assets	Total asset carrying amount	Total fair value of assets
<i>Assets of the reporting institution</i>						
Loans on demand	9,788	9,788	224,511	224,511	234,299	234,299
Equity instruments	-	-	10,000	10,000	10,000	10,000
Debt securities	-	-	-	-	-	-
Loans and advances other than loans on demand	-	-	3,208,743	3,208,743	3,208,743	3,208,743
Other assets	3,809	3,809	55,597	55,597	59,406	59,406
Total Assets	13,597	13,597	3,498,852	3,498,852	3,512,449	3,512,449

Collateral Received (£000s)

As at 31 December 2018			
		Fair value of encumbered collateral received or own debt securities issued	Fair value of collateral received or own debt securities issued available for encumbrance
Collateral received			
Loans on demand		-	-
Equity instruments		-	-
Debt securities		-	1,095,741
Loans and advances other than loans on demand		-	-
Other collateral received		-	-
Total collateral received		-	1,095,741
Own debt securities issued other than own covered bonds or ABSs		-	-
Total		-	1,095,741

Appendix 1: Capital Instruments' Main Features

Issuer	Credit Suisse (UK) Limited	Credit Suisse (UK) Limited	Credit Suisse (UK) Limited
Unique identifier (eg CUSIP, ISIN or Bloomberg identifier for private placement)	N/A	N/A	N/A
Governing law(s) of the instrument	English	English	English
<i>Regulatory treatment</i>			
Transitional CRR rules	Common Equity Tier 1	Tier 2	Tier 2
Post-transitional CRR rules	Common Equity Tier 1	Tier 2	Tier 2
Eligible at solo / (sub-)consolidated / solo & (sub-) consolidated	Solo	Solo	Consolidated
Instrument type (types to be specified by each jurisdiction)	Common Shares	Subordinated Debt	Subordinated Debt
Amount recognised in regulatory capital (currency in million, as of most recent reporting date)	£245.23	£25.00	£30.00
Nominal amount of instrument	£245.23	£25.00	£30.00
Issue price	Par	Par	Par
Redemption price	Par	Par	Par
Accounting classification	Shareholders Equity	Liability -amortised cost	Liability -amortised cost
Original date of issuance	26-Mar-1997	07-Jan-2011	27-Sep-2018
Perpetual or dated	Perpetual	Dated	Dated
Original maturity date	No Maturity	31-May-2031	27-Sep-2028
Issuer call subject to prior supervisory approval	N/A	Yes	Yes
Optional call date, contingent call dates, and redemption amount	N/A	Optional, not before 7 January 2016, subject to prior PRA approval	Optional, not before 27 September 2023, subject to prior PRA approval
Fixed or floating dividend/coupon	N/A	Floating	Floating
Coupon rate and any related index	N/A	£3-month Libor + 310bps	£3-month Libor + 265bps
Existence of a dividend stopper	No	No	No
Fully discretionary, partially discretionary or mandatory	Fully Discretionary	Mandatory	Mandatory
Fully discretionary, partially discretionary or mandatory	Fully Discretionary	Mandatory	Mandatory
Existence of step up or other incentive to redeem	N/A	No	No
Noncumulative or cumulative	Non-Cumulative	Cumulative	Cumulative
Convertible or non-convertible	N/A	Non-convertible	Non-convertible
Position in subordination hierachy in liquidation (specify instrument type immediately senior to instrument)	Tier 1	Unsecured and subordinated to the claims of unsubordinated creditors	Unsecured and subordinated to the claims of unsubordinated creditors
Non-compliant transitioned features	No	No	No
If yes, specify non-compliant features	N/A	N/A	N/A

<https://www.credit-suisse.com/corporate/en/investor-relations/financial-and-regulatory-disclosures/regulatory-disclosures/capital-instruments.html>

<https://www.credit-suisse.com/corporate/en/investor-relations/financial-and-regulatory-disclosures/regulatory-disclosures/capital-instruments.html>

Appendix 2: Key Risks, Risk Mitigation and Core Metrics

As at 31 December 2018

Key Risk	Risk Description	Risk Mitigation	Indicative Core Metrics Monitored
Conduct Risk	The risk of poor conduct by CSUK and/or individuals resulting in clients not receiving a fair transaction, a lack of integrity in activities on financial markets and in the wider financial system and a lack of effective competition in the interests of clients. Conduct risk may arise from a variety of sources, including the potential unsuitability of products sold to clients due to their complexity, breaches of regulatory rules or laws by individual employees or CSUK's market conduct.	<ul style="list-style-type: none"> • Primary responsibility lies with CSUK's senior business line managers (first Line of Defence). CSUK participates in the Credit Suisse London Conduct Risk Committee (LCRC). • The LCRC will consider CSUK's adoption of compliance and other policies and training, and the use of employee training sessions to mitigate Conduct Risk. • Limit and control risk of adverse outcomes through policies, procedures and training 	<ul style="list-style-type: none"> • Market Conduct & Integrity Index • Employee Conduct Index • Regulatory Interaction Index • Client Conduct Index
Credit Risk	The risk to earnings (and potentially solvency) in the event of counterparties failing to meet their obligations and/or impairment of collateral.	<ul style="list-style-type: none"> • The credit risk management framework covers seven core components. • Collateral as security in the form of an asset or third-party obligation that either substitutes the borrower default risk or improves recoveries in the event of default. • CSUK also transacts under International Swaps and Derivatives Association ('ISDA') Master Agreements which provide for the net settlement of all transactions under the agreement. CSUK only deposits cash with other CS group entities. • Country limits are approved annually for emerging markets. CSUK maintains capital adequacy in excess of regulatory requirements. 	<ul style="list-style-type: none"> • Sector concentration • Counterparty concentration • Unsecured facilities • Impaired loans
Liquidity Risk	The risk to earnings, capital or the conduct of business arising from the inability to meet both expected and unexpected current and future cash flow and collateral needs without affecting either daily operations or the financial condition of the firm due to inability to access proper funding.	<ul style="list-style-type: none"> • Liquidity, funding and the management of FX positions are centrally managed by CS Group Treasury. Oversight provided by the ALM CARMC with ultimate responsibility of CSUK's Board of Directors. • Funding is a component of a conservative asset-liability management ('ALM') strategy aimed at maintaining a funding structure with long-term stable funding sources. • A liquidity buffer is also maintained to sustain operations for extended periods of time in the event of systemic and other crisis. • CSUK would activate its Contingency Funding Plan ('CFP') in the event of such a crisis. 	<ul style="list-style-type: none"> • Net stable funding ratio (NSFR) • Liquidity Coverage Ratio (LCR) • CS Internal Barometer 2.0 model • Currency Coverage Ratio

Key Risk	Risk Description	Risk Mitigation	Indicative Core Metrics Monitored
Operational Risk	The risk of loss resulting from inadequate or failed internal processes, people and systems or from external events.	<ul style="list-style-type: none"> Bank Operational Risk Oversight, the CSUK OpRisk Appetite Framework and Business Continuity Management are aligned to CS group policies. Businesses areas take responsibility for their operational risk management and are supported by operational risk teams who are responsible for the implementation of the operational risk management framework, methodologies and reporting. CS group-wide tools are employed including risk appetite tolerances, reporting of 'top' operational risks; utilising operational risk registers; risk and control indicators; risk and control self-assessments (RCSAs); analysis of internal operational risk incident data; review of external loss data; operational risk scenario development. 	<ul style="list-style-type: none"> Internal fraud External fraud Employment practice Clients, products and business practices Business and system disruption Damage to physical assets
Reputational Risk	The risk arising from negative perception on the part of customers, counterparties, shareholders, investors or regulators that can adversely affect CSUK's ability to maintain existing (or establish new) business relationships and continued access to sources of funding.	<ul style="list-style-type: none"> The Reputational Risk and Sustainability Committee sets policies, and reviews processes and significant cases relating to reputational risk. Business proposals are submitted to the CS group's Reputational Risk Review Process which includes submitting a proposal to CS Reputational Risk Approvers who are independent of the business division. 	<ul style="list-style-type: none"> Approved/declined applications for higher risk products / services in period Monitoring of Investor Visa clients
Market Risk	<p>Potential risk to earnings, primarily through FX positions, arising as a consequence of the lending book (FX gap risk); and intraday exposures from FX trading on behalf of clients; and settlement risk arising from DVP trades on behalf of clients.</p> <p>Potential risk to earnings arising primarily as a consequence of the banking book, potential MTM risk on failed client trades (FX and DVP), and to a lesser extent, other interest-rate sensitive earnings.</p>	<ul style="list-style-type: none"> CSUK has a policy of not taking proprietary market positions. Trading transactions are generally entered into on either an agency or 'back-to-back' basis. The Board of Directors sets limits on the level of exposure by single currency and in aggregate for both overnight and intra-day FX positions, which are monitored daily. The Board of Directors sets limits on the level of exposure at a client level and firm level arising from failed DVP trades, which are monitored daily. 	<ul style="list-style-type: none"> Funding gaps in the Banking Book Net open FX positions Gross notional, MTM and VaR on settlement risk arising from DVP trades Interest rate sensitivity to a +/- 200 basis point shift Model VaR and EaR on a yield curve shift

Key Risk	Risk Description	Risk Mitigation	Indicative Core Metrics Monitored
Financial Crime Risk	The risk of regulatory or legal breach, loss of reputation and the financial consequences thereof through facilitating any kind of criminal conduct relating to money or to financial services or markets.	<ul style="list-style-type: none"> • Conduct business only with clients and beneficial owners whose identity and source of funds and wealth have been established, as appropriate, in accordance with local laws, rules and regulations; • Subject client relationships and transactions that are deemed to have increased money laundering risk to higher scrutiny through enhanced due diligence; • Monitor and, where appropriate, investigate client transactions to detect and prevent unusual or suspicious activity; and • Escalate unusual or suspicious activity in accordance with local laws, rules and regulations. 	<ul style="list-style-type: none"> • Proportion of higher risk (PEPs and EDD) clients • Prospects declined • Alerts • SARs • KYCs
Strategic Risk	The risk of negative outcomes which impair the ability of CSUK to execute its strategic business plans.	<ul style="list-style-type: none"> • Focus on identifying, mitigating and systematically managing the risks to our strategic objectives. Monitored by Risk Committee • Proactive management by the business via the ExCo to reduce barriers that would otherwise prevent CSUK from achieving its strategic objectives. • Seek to be anticipatory and preventative – not reactive – in addressing Strategic Risk. 	<ul style="list-style-type: none"> • Earnings at risk • Focus on Risk Adjusted returns • Target earnings stability (or volatility) against strategy / forecast
Pension Risk	Contingent liability arising from a Defined Benefits scheme (now closed). Market risk (which is materially hedged) and longevity risk.	<ul style="list-style-type: none"> • Contingent liability arising from a Defined Benefit Scheme (now closed). The risk manifests in market risk (materially hedged) and longevity risk. • Seek to manage the residual risk, maintaining adequate provisions for potential shortfalls. 	<ul style="list-style-type: none"> • Monitoring potential level of provisioning for any contingent liability • Tri-annual review with Plan manager

Appendix 3: Directorships

CSUK's Board Members hold the following number of directorships as at 10 April 2019:

Name	Gender	Independent	Appointment Date	Mandate* (Years)	Total Number of Directorships
M Bussey	M	Independent	06/01/2012	9.2 years	4
C Berchem	M		12/09/2017	N/A	2
M Erasmus	F	Independent	24/10/2017	1.7 years	4
J Forrester	M		21/02/2017	N/A	1
I Hale	M		08/12/2014	N/A	5
A Kinney	F	Independent	29/11/2017	1.6 years	3
M Sullivan	F		01/12/2015	N/A	4

*New non-executive directors are usually appointed for an initial two-year term and subject to re-appointment, typically expected to serve 2 two-year terms. The Board may invite a Director to serve additional periods. All terms are subject to review by the Nomination Committee. N/A for Executive Board Directors. All Board Directors are subject to an annual Board Evaluation.

*Mandate (Years) since initial appointment date

Appendix 4: List of Abbreviations and Glossary

Term	Definition
B	
Banking Book	Classification of assets outside the definition of Trading Book (also referred to as the 'Non-Trading Book').
Back-testing	A technique (typically applied to trading strategies) where a specific strategy is applied to historical data to assess the effectiveness of that strategy.
Basel II	The capital adequacy framework issued by the Basel Committee on Banking Supervision (June 2006). From 1 January 2007, The European Union's Capital Requirements Directive ('CRD') was effective. The CRD was derived from the Basel II Accord ('Basel II').
Basel III	Basel II was subsequently replaced in the EU, from 1 January 2014, by the Capital Requirements Regulation (CRR) and the Capital Requirements Directive (collectively 'CRDIV'). Basel III requirements will be fully implemented by 1 January 2019.
C	
CCB	<i>Countercyclical capital buffer</i> : prescribed under Basel III and CRDIV and aims to ensure that capital requirements mitigate potential future losses arising from excess credit growth and hence increased system-wide risk.
CET1	<i>Common Equity Tier 1</i> : the highest quality level of regulatory capital prescribed under Basel III (and by CRD IV in the EU).
CET 1 ratio	CET1 expressed as a percentage of RWA.
CRD	<i>Capital Requirements Directive</i> : EU legislation implementing Basel III (and previously Basel II) in the EU.
CRR	<i>Capital Requirements Regulation</i> : EU legislation implementing Basel III in the EU.
CVA	<i>Credit valuation adjustment</i> : a capital charge under Basel III (CRD IV) covering the risk of mark-to-market losses on expected counterparty risk on derivative exposure arising from deterioration in a counterparty's credit worthiness.
E	
DVP	A securities industry settlement procedure in which the buyer's payment for securities is due at the time of delivery. Delivery versus payment (DVP) is a settlement system that stipulates that cash payment must be made prior to or simultaneously with the delivery of the security. This form of settlement applies where the client custodies cash / securities external to CSUK, but executes market trades via CSUK.
E	
Exposure value	The maximum loss that a financial institution might suffer if a borrower, counterparty or group fails to meet their obligations or if assets and off-balance sheet positions have to be realised.
EBITDA	<i>Earnings before interest, taxation, depreciation and amortisation</i> .
F	
FCA	<i>Financial Conduct Authority</i> - The UK regulator responsible for conduct of business regulation and supervision.
H	
Haircut	A discount applied to reflect the amount at which an asset can be realised.
I	
ICAAP	<i>Internal capital adequacy assessment process</i> : a risk-based assessment of the level of regulatory capital to be held by a bank or firm. This may exceed the Pillar 1 capital requirements.
IFRS	<i>International Financial Reporting Standards</i> .
ISDA	<i>International Swaps and Derivatives Association</i> .
ISDA master agreement	Standardised contract developed by ISDA to facilitate bilateral derivatives trading.
L	
Leverage ratio	A calculation prescribed under Basel III (and CRDIV) to measure the ratio of total exposures to available Tier 1 capital.
K	
KYC	<i>Know Your Client</i> . The information that a bank collects to correctly identify clients and their source of wealth to prevent criminals and terrorists from using financial products or services to store or move the proceeds of crime.
M	
Mark-to-market	A regulatory prescribed method for calculating exposure values in respect of counterparty credit risk

Pillar 3 Disclosures 2018

Term	Definition
Master netting agreement	An agreement between two counterparties who have multiple contracts with each other that provides for the net settlement of all contracts in the event of default on, or termination of any one contract.
Minimum capital requirements	The minimum amount Pillar 1 requirements to be held for credit, market and operational risk.
N	
Netting	Netting is a means to reduce on- and off- balance sheet credit risk exposures by offsetting the value of any contracts or other positions held with the same counterparty.
O	
OTC	<i>Over-the-counter</i> . A security or other financial instrument not traded on a formal exchange.
P	
Pillar 1	Minimum regulatory capital requirements to be held by a bank or investment firm as prescribed by Basel III (and CRDIV).
Pillar 2	Regulator imposed risk-based capital requirements to be held in excess of Pillar 1.
Pillar 3	CRDIV prescribed capital, risk and remuneration disclosure requirements.
PRA	<i>Prudential Regulation Authority</i> - The UK regulator responsible for the prudential regulation and supervision of banks, building societies, credit unions, insurers and major investment firms
R	
Reverse repurchase agreement	An agreement that allows a borrower to use a financial security as collateral for a cash loan.
RWA	<i>Risk-weighted asset</i> : derived by assigning risk weights to an exposure value.
S	
SAR	<i>Suspicious activity report</i> . An SAR is a piece of information alerting law enforcement agencies (such as the National Crime Agency) that a certain customer activity is in some way suspicious and may indicate money laundering or terrorist financing
SFT	<i>Securities financing transaction</i> : lending or borrowing of securities (or other financial instruments), a repurchase or reverse repurchase transaction, or a buy-sell back or sell-buy back transaction.
SREP	<i>Supervisory Review and Evaluation Process</i> .
Stressed VaR	A market risk capital charge derived from potential market movements applied over a continuous one-year period of stress to a trading book portfolio.
T	
Tier 1 capital	A component of regulatory capital, comprising CET1 and Additional Tier 1 capital as defined by Basel III and the CRDIV.
Tier 1 capital ratio	The ratio of Tier 1 capital to total RWA.
Tier 2 capital	A lower quality of capital (with respect to 'loss absorbency') also known as 'gone concern' capital.
Trading Book	Positions held with intent to trade or to hedge other items in the Trading Book.
V	
VaR	<i>Value-at-risk</i> : loss estimate from adverse market movements over a specified time horizon and confidence level.

Cautionary Statement Regarding Forward-looking Information

This report contains statements that constitute forward-looking statements. In addition, in the future we, and others on our behalf, may make statements that constitute forward-looking statements. Such forward-looking statements may include, without limitation, statements relating to the following:

- our plans, objectives or goals;
- our future economic performance or prospects;
- the potential effect on our 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. We do 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. We caution you that 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 volatility and interest rate fluctuations and developments affecting interest rate levels;
- the strength of the global economy in general and the strength of the economies of the countries in which we conduct our operations, in particular the risk of continued slow economic recovery or downturn in the US or other developed countries or in emerging markets in 2019 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 us, sovereign issuers, structured credit products or other credit-related exposures;
- the ability to achieve our strategic objectives, including cost efficiency, net new asset, pre-tax income/(loss), capital ratios and return on regulatory capital, leverage exposure threshold, risk-weighted assets threshold and other targets and ambitions;
- the ability of counterparties to meet their obligations to us;
- the effects of, and changes in, fiscal, monetary, exchange rate, trade and tax policies, as well as currency fluctuations;
- political and social developments, including war, civil unrest or terrorist activity;
- the possibility of foreign exchange controls, expropriation, nationalization or confiscation of assets in countries in which we conduct our operations;
- operational factors such as systems failure, human error, or the failure to implement procedures properly;
- the risk of cyberattacks on our business or operations;
- actions taken by regulators with respect to our business and practices and possible resulting changes to our business organization, practices and policies in countries in which we conduct our operations;
- the effects of changes in laws, regulations or accounting policies or practices in countries in which we conduct our operations;
- the potential effects of proposed changes in our legal entity structure;
- competition or changes in our competitive position in geographic and business areas in which we conduct our operations;
- the ability to retain and recruit qualified personnel;
- the ability to maintain our reputation and promote our brand;
- the ability to increase market share and control expenses;
- technological changes;
- the timely development and acceptance of our 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, regulatory proceedings, and other contingencies; and
- other unforeseen or unexpected events and our success at managing these and the risks involved in the foregoing.

The foregoing list of important factors is not exclusive.

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