Pillar III disclosures for the year ending December 31, 2019 Credit Suisse (Luxembourg) S.A.

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1. Introduction

This report presents the Pillar III disclosures of Credit Suisse (Luxembourg) S.A. (hereafter "CSL" or "the Bank"). The disclosures presented as part of this report include information of CSL combined with its branches:

- Credit Suisse (Luxembourg) S.A. Zweigniederlassung Österreich (hereafter "Austria Branch") established on January 15, 2007
- Credit Suisse (Luxembourg) S.A., Portugal Branch (hereafter "Portugal Branch") established on March 19, 2013
- Credit Suisse (Luxembourg) S.A., France Branch (hereafter "France Branch") established on February 6, 2015
- Credit Suisse (Luxembourg) S.A., The Netherlands Branch (hereafter "The Netherlands Branch") established on April 1, 2016
- Credit Suisse (Luxembourg) S.A., Ireland Branch (hereafter "Ireland Branch") established on September 8, 2017

The Pillar III framework has been introduced by the Basel III framework and it has been implemented at European level through Regulation (EU) No 575/2013 on prudential requirements for credit institutions and investment firms (most commonly referred to as the Capital Requirements Regulation or the "CRR") and Directive 2013/36/EU on access to the activity credit institutions and the prudential supervision of credit institutions and investment firms (most commonly referred to as the Capital Requirements Directive IV or the "CRD IV").

In addition to the CRR/CRD IV framework, the European Banking Authority (most commonly referred to as the "EBA") has also published guidelines on "disclosure requirements under Part Eight of Regulation (EU) No 575/2013" (EBA/GL/2016/11).

At Luxembourg level, the "Commission de Surveillance du Secteur Financier" ("CSSF") adopted the EBA guidelines EBA/GL/2016/11 through CSSF circular 17/673.

The present Pillar III report is published by the Bank on a yearly basis and it aims at considering the provisions of all the regulations, directives, circulars and guidelines listed above, proportionally to the size and complexity of CSL. The present report is structured as follows:

- Section 2: General information on the Bank in the context of Pillar III reporting
- Section 3: Risk management objectives and policies
- Section 4: Risk management framework
- Section 5: Own funds
- Section 6: Linkages between financial statements and regulatory exposures
- Section 7: Information on credit risk
- Section 8: Information on market risk
- Section 9: Information on operational risk
- Section 10: Information on liquidity risk
- Section 11: Leverage ratio
- Section 12: Remuneration policy

2. General information

2.1 Background information

Drawing on the lessons of the 2007/2008 financial crisis, the Basel Committee on Banking Supervision (most commonly referred to as the “BCBS”) published a reform package in 2010 called Basel III to bolster capital and liquidity requirements. Parts of the package came into force in 2013. In December 2017, the Basel Committee published its final Basel III standards. These are due to come into effect in 2023 according to the international timetable which has been adjusted during the COVID-19 crisis (the implementation was originally foreseen for 2022). The objective is to enhance the stability of the financial system by means of three pillars, which are expected to be mutually reinforcing:

- Pillar I defines eligible capital and methods for calculating the minimum capital requirements for credit, market and operational risks.
- Pillar II covers the supervisory review process which ensures that banks have sufficient capital to back all risks and also requires appropriate management of these risks.
- Pillar III defines minimum disclosure obligations for banks. The purpose of Pillar III is to enhance the degree of transparency of banks in the market.

As a result of Basel III, stricter requirements now apply to eligible capital with respect to loss absorption capacity and the minimum capital requirements have been tightened. Other innovations are the capital conservation buffer, the introduction of the countercyclical capital buffer and an unweighted leverage ratio to complement the risk-oriented minimum capital requirements. All these elements have to be reported as part of Pillar III disclosures with the aim of providing market participants with sufficient information to assess a bank’s overall capital and liquidity adequacy.

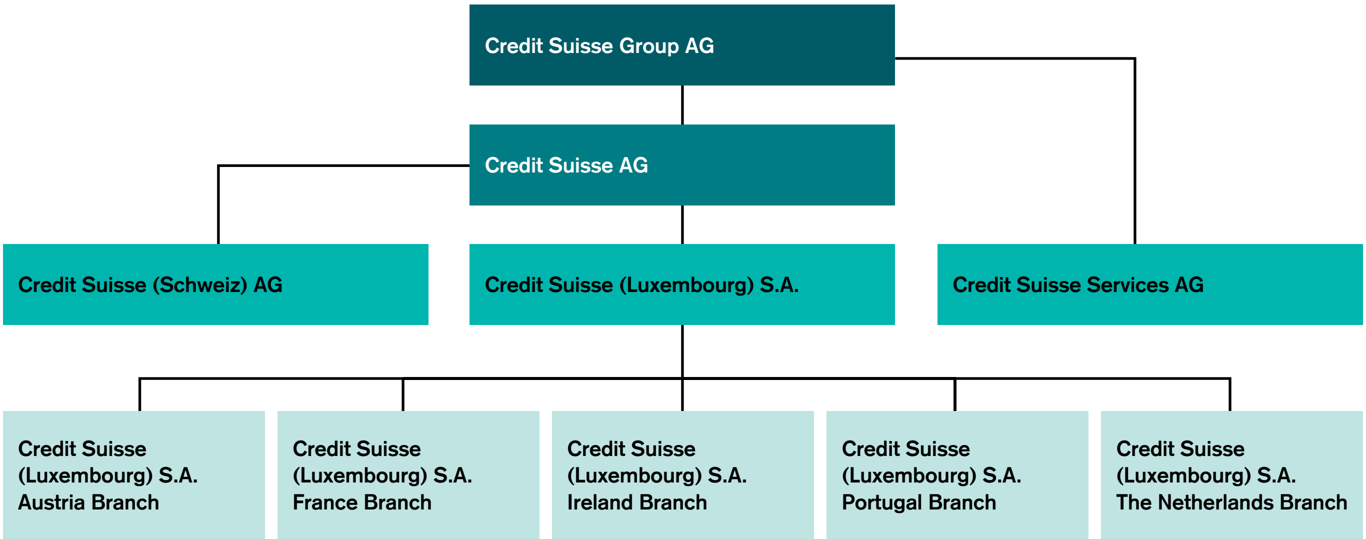
In this context, the EBA has issued guidelines on “disclosure requirements under Part Eight of Regulation (EU) No 575/2013” (EBA/GL/2016/11), to bridge the gap between Part Eight of the CRR and the revised Pillar III framework. These guidelines present in detail information that is required to be reported by banks as part of their Pillar III disclosures.

2.2 Basis and frequency for disclosures

This document has been prepared by CSL in accordance with applicable Pillar III requirements (regulations, directives, guidelines and circulars). Unless otherwise stated, all the figures are presented as of December 31, 2019.

CSL publishes the required disclosures at least on an annual basis. In case of major change in the activities or in the organizational structure, the Bank will assess the need to publish some or all of the disclosures on a more frequent basis.

2.3 Ownership structure



Credit Suisse AG is CSL's sole shareholder. Credit Suisse Group AG remains indirect shareholder of CSL since Credit Suisse Group AG continues to hold 100% of the shares of Credit Suisse AG.

2.4 Activities

CSL's business model is mainly concentrated on Wealth Management activities (direct business from Luxembourg, foreign branches and external asset managers). In terms of client segments, the Bank caters to premium and ultra-high net worth ("UHNW") individuals mostly in Europe as well as to family offices.

In addition to these activities, the Bank also offers Depositary Bank services to investment funds (both in-house and external funds) as well as corporate banking services in support to selected Large Corporates which are active in Europe.

2.5 Business strategy

An update of the Bank strategic planning has been performed during Q1 2019 with a focus on defining the target positioning, the cornerstones of the value proposition and key growth levers that will allow the Bank to grow its top- and bottom-line contribution to Credit Suisse Group ("CSG") over the coming years.

The Bank aims to become the leader in serving the wealthiest Continental European families by combining a distinctive Private Banking approach with an industry-leading institutional offering. Cornerstones of CSL's value proposition include the positioning as European hub with full market access to all EU markets, a one-stop-shop private label fund offering covering all value-chain elements in house, an industry-leading Private Banking lending offering as well as privileged access to world-class asset management and investment banking capabilities.

As a core element of the strategic plan that the Bank will pursue over the coming years, a set of growth levers has been defined across the client segments the Bank is targeting: Private Banking Clients, External Asset Managers and Institutional Clients. The identified growth levers fall into three categories:

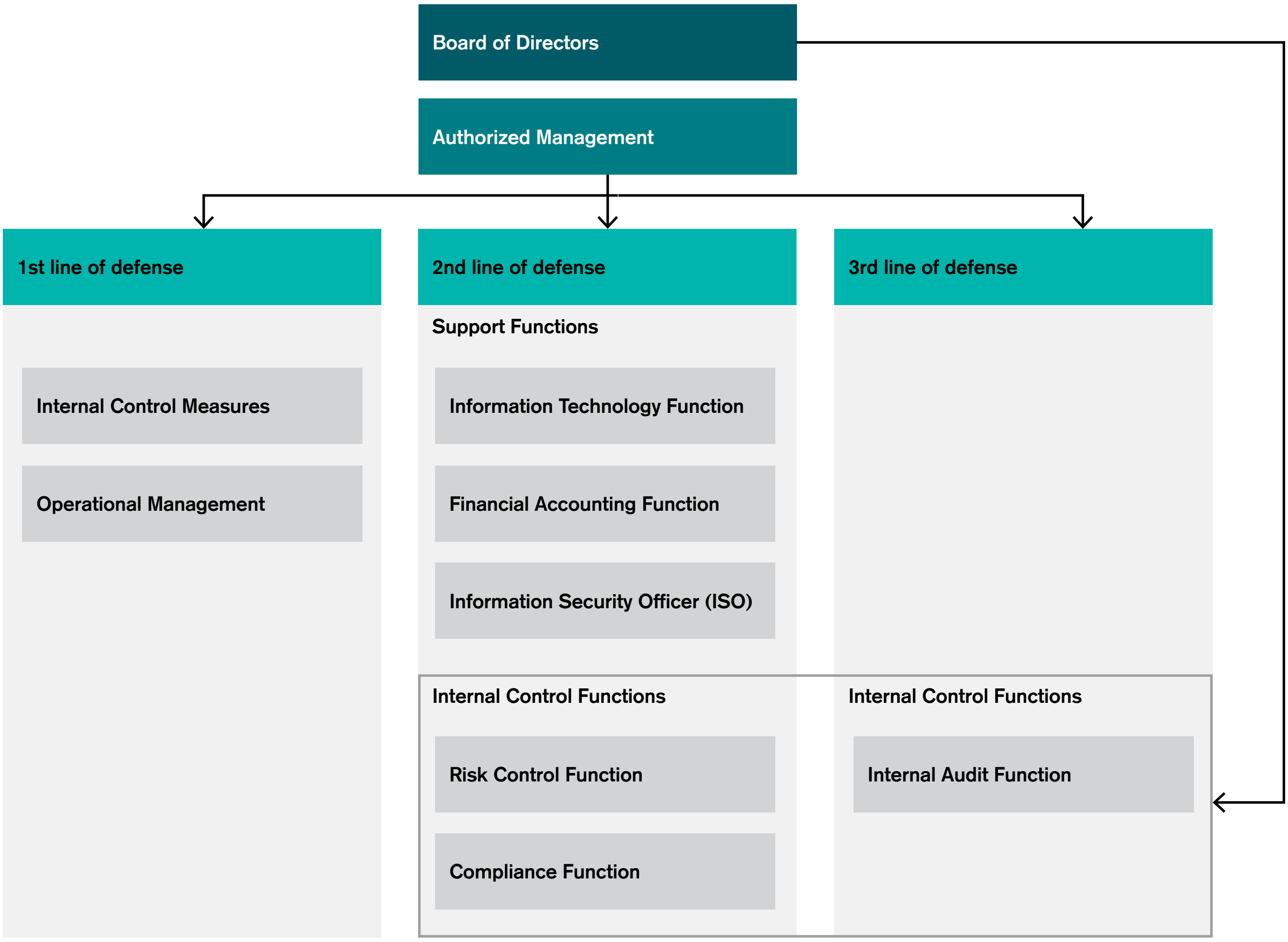
- Front activation and effectiveness (e.g. capturing of business opportunities through improved client segmentation, support model and sales culture);
- Capability enhancement (e.g. extend the Bank capabilities in lending, trading solutions or portfolio management);
- Franchise expansion (e.g. via Relationship Manager hiring and extension of branch network).

A strategy implementation roadmap has been defined to sequence priority initiatives that will support the transformation of the existing business model towards target state. These initiatives will include:

- Private Banking Segmentation: Implement segmentation of private banking clients into key clients with highest revenue potential covered by specialized deal teams, core clients serviced with customised offering and private clients with access to centralized execution capabilities;
- Growth strategy for Depository Bank: Develop approach to gain scale in depository banking by increasingly extending reach to third-party institutional clients; Platform optimization and digitalization: Further optimize processes and workflows; deployment of innovative solutions and digital capabilities.

2.6 Governance

In order to achieve a sound and prudent risk management framework, the Authorised Management ("AM") implemented a three-line of defence model, in accordance with the CSSF circular 12/552, as amended. The diagram below shows the Bank's internal governance framework.



The three lines of defence are defined as follows:

- The first line of defence consists of the business units that take or acquire risks under a predefined policy and limits, and carry out controls.
- The second line is performed by the independent control functions, primarily the Compliance function and the Risk Control function. Additionally, Legal Entity Finance (“LEF”) Luxembourg, the IT function and the Information Security Officer (“ISO”) function are contributing to the overall internal control environment of the Bank.
- The third line consists of the Internal Audit function which provides an independent, objective and critical review of the first two lines of defence.

With this structure, the Bank has designed a sound Risk Management Framework, integrated at every level of the Bank. The key governance bodies of the Bank are as follows:

2.6.1 Board of Directors

In line with CSSF circular 12/552 as amended, the Board of Directors (“BoD”) reviews and approves the risk appetite on an annual basis to ensure that it is consistent with Group strategy, CSL strategy and reflective of the current and anticipated business environment. The BoD is ultimately responsible for decision-making regarding the implementation of corrective actions. The chairman of the BoD is an independent member of the BoD.

2.6.2 Audit & Risk Committee

The quarterly board-driven Audit & Risk Committee (“ARC”) primary function is to assist the BoD in fulfilling its oversight responsibilities in the areas of financial information, internal control, including internal and external audits. The ARC assists the BoD in its mission to assess the adequacy between the risks incurred, the Bank’s ability to manage these risks and the internal and regulatory own funds and liquidity reserves. The ARC further discusses and approves appropriate corrective actions suggested by the CARMC before submitting them to the BoD.
The ARC chairman is an independent Board member and is appointed by the ARC members.

2.6.3 Capital Allocation & Risk Management Committee

Whereas the main purpose of the ARC is to support the BoD fulfilling its oversight responsibility in the areas of financial information, internal control as well as internal and external audit, the Capital Allocation & Risk Management Committee (“CARMC”) is the major governance and decision-making body of the Bank for capital and risk related topics.

The CARMC covers all risks of the Bank. Moreover, the CARMC assesses on a regular basis changes in the risk profile of the organization and the impact on the internal capital adequacy. The conclusions of the CARMC are reported on a regular basis to the ARC. The CARMC chairman is the Chief Risk Officer (“CRO”) and other participants of this committee are the Chief Executive Officer (“CEO”), Chief Operating Officer (“COO”), Chief Financial Officer (“CFO”), the Treasurer and the Chief Compliance Officer (“CCO”).

Among others, the CARMC has the responsibilities to:

- Assess the overall risk profile, its future development and its adequacy with the risk strategy of the Bank;
- Assess the allocation of risk capital and make recommendations to the ARC;
- Review/assess of financial figures & adequacy of the financial reporting process;
- Set/approve limits and thresholds and other appropriate measures to monitor and manage the risk portfolio;
- Monitor key control issues, Key Risk Indicators (“KRI”) and compliance with risk appetite tolerance thresholds;
- Review and assess on compliance and audit risks/issues;
- Review and assess the adequacy of business continuity planning.

2.6.4 Sub-committees

Beyond the CARMC, there are specialized sub-committees in place, such as:

- The monthly Asset and Liability Committee ("ALCO") is established to manage the Bank's balance sheet, asset/liability, liquidity, capital adequacy and profitability. The ALCO chairman is the Treasurer.
- The Credit Committee ("CC") main objective is to manage and monitor the overall credit risk for CSL in line with the Bank's risk appetite, policies and business objectives with the aim to recap the credit risk activities in the context of the overall credit portfolio and the Bank's funding situation. The CC chairman is the CRO. The CC meets on a regular basis (4–8 weeks), exceptional meetings can be called by all the permanent members.
- The monthly Risk Committee ("RC") is the principal risk monitoring and steering meeting, allowing for a quantitative overview of KRI covering the Bank's Front offices (incl. branches) and operational functions. The RC chairman is the CEO.
- The monthly Operational Risk and Oversight Committee ("OROC") is the principal risk monitoring and steering meeting, allowing for a quantitative overview of KRI's covering the Bank's operational functions. The OROC chairman is the COO.
- The quarterly Regulatory Reporting Framework Steering Committee ("RRF STC") governs all regulatory reporting matters including reporting production, changes, new requirements and any related quality, control or audit issues. The RRF STC is led by LEF and its chairman is the CFO.
- The Remuneration Committee governs (as also described under section 12.2) the effective implementation of remuneration policies and practices, which are in line with both, the Group Compensation Policy and the applicable remuneration legislation.

The CARMC sub-committees provide on a regular basis information to the CARMC, if there are any changes in the risk profile of the Bank, considering their respective risk perimeter coverage.

3. Risk management objectives and policies

3.1 Risk strategy

The risk strategy is interlinked with the business strategy and both need to be consistent. To deliver on the strategy, the BoD recognizes that it is necessary to take on certain risks through the products and services the Bank delivers to the clients. Foremost amongst these is market risk, liquidity risk, credit risk and operational risk. At the same time, the Bank will seek to minimize risks which pose a threat to execution of our business strategy and/or deliver sub-economic risk-adjusted returns. The guiding principles of the Bank's risk strategy are:

- Risk is undertaken within a defined risk appetite, must have an expected return/reward that is commensurate with the risk, and be increasing value over the long term. The company has no appetite for inadequately rewarded risks.
- Risks are undertaken only to the extent that they are consistent with and contribute to the achievement of the company's strategic objectives and execution of the business strategy, when the Bank has demonstrable expertise and competency to manage them.
- Risk tolerances and more granular risk limits are set to manage the aggregate exposure relative to the current resources and capacity, such that the most adverse outcomes can be absorbed without jeopardizing the business strategy. Levels of risk vs. tolerances are monitored proactively and business plans adapted as required to stay within the tolerances.

3.2 Risk governance

Fundamental to the Bank's business is the prudent taking of risk in line with the Bank's strategic priorities. Risk taking activities are guided by Strategic Risk Objectives ("SRO") agreed with the BoD, such as protection of the Bank's financial strength and reputation, ensuring capital adequacy and sound management of risk.

The Bank's risk management framework is based on transparency, management accountability and independent oversight. Risk management is an integral part of the Bank's business planning process with strong involvement of AM and BoD.

Effective risk management begins with effective risk governance. In accordance with CSSF circular 12/552, as subsequently amended, the Bank implemented a three lines of defence model (cf. section 2.6).

The BoD is responsible for the Bank's strategic direction, supervision and control, and for defining the Bank's overall tolerance for risk in the form of a Risk Appetite Statement ("RAS") and overall risk limits. Overall risk limits are set by the BoD in consultation with the ARC. The AM is responsible for developing and implementing the strategic business plan of the Bank, subject to BoD approval. The CRO is member of the AM and represents the risk management function.

The Bank is integrated in the risk management and internal control framework of CSG which includes a dedicated liquidity planning and implementation and it operates within the BoD approved Liquidity Risk Management Policy, which describes the principles guiding the management of liquidity and funding, roles and responsibilities (including governing bodies) and the monitoring tools used to track liquidity positions.

The main objectives of the Internal Control Functions ("ICF") are the anticipation, identification, measurement, monitoring, control and reporting of all the risks to which the Bank is or may be exposed. Moreover, the ICF shall verify and monitor compliance with internal policies and procedures which fall within the area for which they are responsible.

ICF report directly to AM and BoD as well as to their functional Credit Suisse reporting lines and network. That means local ICF take on local legal entity responsibilities, but at the same time are well connected to Group risk and control functions and subject matter experts, such as IWM Non-Financial Risk Management ("NFRM"), Group Reputational Risk Management and Global Political Exposed Persons ("PEP") Desk. The ICF advice independently on risk. The roles and responsibilities of the different ICF are formalized in the Compliance, Risk Control and Internal Audit charters and related policies.

The Bank maintains a comprehensive RAS, approved by the BoD on a regular basis. The RAS is aligned with the Bank's financial and capital plans and based on SRO's, the scenario stress testing of the Bank's forecasted financial results and capital requirements. The RAS encompasses the processes and systems for assessing the appropriate level of risk appetite required to constrain the Bank's overall risk profile.

There is a holistic suite of different control types (e.g. risk limits/thresholds) for the monitoring of risks in place. Different levels of seniority are attached to each control type and specific enforcement and breach response protocols are defined, incl. escalation to the relevant governance bodies (cf. section 2.6).

The materiality of the Bank's risks is assessed on a regular basis by AM and BoD. Each risk type is evaluated separately as well as their combined impact is considered, in order to ensure that the overall risk profile remains within the risk appetite.

The assessment of risk is supported by stress testing, e.g. for credit risk, market risk, operational risk and business/strategy risk. The scenarios are reviewed and updated on a regular basis as markets and business strategies evolve.

The risk management and stress testing framework of the Bank is fully integrated in the internal control environment at Credit Suisse level. Stress tests are conducted on a regular basis and reviewed/calibrated on the local level. The results are reported to AM and BoD.

The Bank's governance includes a committee structure and a comprehensive set of corporate policies which are developed, reviewed and approved by the BoD, AM, and their respective key committees (cf. section 2.6).

4. Risk management framework

4.1 Approach to risk management

Overall, the goal of Bank's approach to risk management is to ensure that all material risks are identified, understood and effectively managed/controlled through a clear Risk Management Framework, in order to ensure adherence to policies and regulations.

The Risk Management Framework is designed to:

- Ensure that appropriate risk tolerances (limits) are in place to govern risk-taking activities across all businesses and risk types;
- Ensure that risk appetite principles permeate the Bank's culture and are incorporated into strategic decision making processes;
- Ensure rigorous monitoring and reporting of key risk metrics to the AM and BoD;
- Ensure there is an ongoing and forward-looking capital planning process which incorporates both economic capital modelling and a robust stress testing program;
- Maintain a risk management organisation that is closely aligned to businesses and independent of the risk taking activities; and
- Promote a strong risk management culture that encourages focus on risk-adjusted performance.

CSL's strategy is to integrate the Risk Management Framework into its management of risk at the business and process levels. Within the risk appetite set by the BoD, each business units is responsible for actively identifying, assessing and managing the risks it faces.

4.2 Risk identification process

As part of its strategy and its activities, the Bank is exposed to the below-mentioned key risks. In this context, the Bank considers all key risks as part of its risk management framework and as part of risk appetite.

CSL risk categories

Risk category	Risk definition
Capital risk	Capital risk is the risk that the financial position of the firm may be adversely impacted by either its relationship (financial or non-financial) with other entities in the same group, risks which may affect the financial position of the whole group, or risks which relate to multiple underlying drivers interacting across the Group. The risk of the mismatch between available resources and capital demand.
Credit risk	The risk of financial loss arising as a result of a borrower or counterparty failing to meet its obligations or as a result of deterioration in the credit quality of the borrower or counterparty.
Market risk: foreign exchange	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.
Market risk: interest rate	Potential risk to earnings arising primarily as a consequence of the banking book, and to a lesser extent, other interest-rate sensitive earnings.
Liquidity and funding risk	The risk that CSL does not have the appropriate amount of funding and liquidity to meet the obligation.

CSL risk categories

Risk category	Risk definition
Operational risk, including:	The risk of financial loss arising from inadequate or failed internal processes, people or systems, or from external events.
▪ Conduct risk	The risk that poor conduct by the Group, its employees or representatives could result in clients not receiving fair treatment or fair outcomes from the transactions, damage to the integrity of the financial markets or the wider financial system, or ineffective competition that disadvantages clients.
▪ Technology risk	The risk of financial loss from failure, exploitation of vulnerabilities or other deficiencies in the platforms that support our daily operations and the system applications and infrastructure on which they reside.
▪ Cyber risk	Cyber risk, is part of technology risk. It is the result of cyberattacks, security breaches, unauthorized access, loss or destruction of data, unavailability of service, computer viruses or other events that could have an adverse security impact.
▪ Settlement risk	Settlement risk is the institution's exposure on the aggregate amount receivable from the point of its irrevocable commitment to a transaction until the point of final settlement.
▪ Legal, compliance and regulatory risks	Legal and compliance risks are the risk of loss arising from the failure to comply with legal obligations, applicable regulations and other related circumstances. Regulatory risk is the risk that changes in laws may affect the Bank's activities.
Reputational risk	The risk that negative perception by our stakeholders may adversely impact client acquisition and damage our business relationships with clients and counterparties, affecting staff morale and reducing access to funding sources.
Fiduciary risk	The risk of financial loss arising when the Group or its employees, acting in a fiduciary capacity as trustee, investment manager or as mandated by law, do not act in the best interest of the client in connection with the advice and management of the Bank's client's assets including from a product-related market, credit, liquidity and operational risk perspective.
Strategic risk	The risk of financial loss or reputational damage arising from inappropriate strategic decisions, ineffective implementation of business strategies or an inability to adapt business strategies in response to changes in the business environment.

4.3 Risk appetite and escalation framework

The Risk Appetite Framework establishes key principles for managing risks to ensure an appropriate balance of return and assumed risk, stability of earnings and capital levels the Bank seeks to maintain. The key aspects of the Risk Appetite Framework is a sound system of integrated risk limits to control overall risk taking capacity and serve as an essential decision making tool for senior management. The Risk Appetite Framework is guided by the following general principles:

- Meeting regulatory requirements and expectations;
- Ensuring capital adequacy;
- Maintaining low exposure to stress events;
- Maintaining stability of earnings;
- Ensuring sound management of liquidity and funding risk.

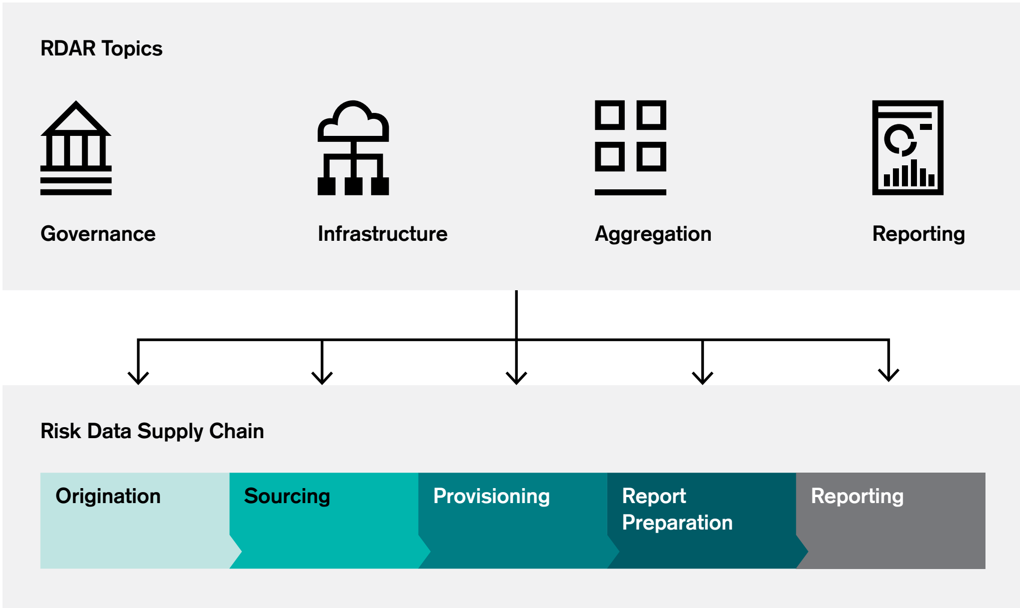
The Risk Appetite Framework is based on a set of risk appetite metrics for which the BoD defined a limit/tolerance level. Risk limit/tolerance levels are a set at different trigger levels, with clearly defined escalation requirements to ensure appropriate actions are implemented as necessary. The risk limits/tolerance levels are monitored and reported on a monthly basis to the AM, and to the BoD on a quarterly basis at least or more often, if the AM deems it necessary. The table below shows the key roles and responsibilities within the escalation framework. For further information on roles and responsibilities, please refer to section 2.6.

Escalation framework within the Risk Appetite Framework

Key actors	Monitoring	Limit excess	Change tolerance	Change risk appetite
Capital Allocation & Risk Management Committee ("CARMC")	Monitor	Discuss; recommend corrective actions	Proposal	Proposal
Audit & Risk Committee ("ARC")	Discuss	Approve	Discuss	Discuss
Board of Directors ("BoD")	Information	Information	Approve	Approve

4.4 BCBS 239

Credit Suisse has a top-down approach for Basel Committee Banking Supervision ("BCBS") 239 Principles for effective risk data aggregation and risk reporting ("RDARR"), where the CRO function defined the governance for reports. It is aimed at progressively covering all relevant risk aspects. At Credit Suisse, the RDAR process can be summarized as a "risk data supply-chain" whereby data passes through a number of key steps before it reaches board and senior managers in the form of a risk report. The risk-data supply chain comprises five principal stages: origination, sourcing, provisioning, report preparation and reporting. The RDAR principles apply to the different steps of the supply-chain. This is depicted below.



Hence, the risk monitoring processes of CSL have undergone a progressive strengthening of the Data & Reporting Governance controls.

CSL opted for a strategic approach not only focusing on compliance, but also implementing a sustainable solution that will address the management of enterprise data.

As at December 2019, the RDAR stream is fully compliant with the RDARR Principles for the material major risk types (i.e. Credit, Liquidity, IRRBB, Investment, Market and Operational). Ongoing embedment of the RDARR principles will be part of the Bank's business-as-usual operations, going forward.

CSL has taken pivotal actions in specific areas, including the adoption of agreed classifications and uniform practices for the description of the life cycle of the data within the main risk monitoring processes. More generally, actions have been taken regarding the aspects:

- Definition of roles and responsibilities;
- Definition of the scope through the identification of the key risk metrics;
- Description of the report workflow, the accompanying note and management of the level of confidentiality of the reports;
- Adoption of agreed classification;
- Description of the data life cycle (Business Data Lineage);
- Capture of risk processes and identification of their interconnections;
- Capture of checks applied to process data;
- Capture and management of recurring manual procedures in the processes.

CSL has also strengthened its focus on data quality control, defining processes, roles and responsibilities, reference classifications (quality dimensions) and identifying the related support instruments.

The types of risk included in the scope of the Risk Data Aggregation and Reporting ("RDAR") Governance are: credit risk, market and counterparty risk, interest rate risk of the banking book, liquidity risk, operational risks and risk integration.

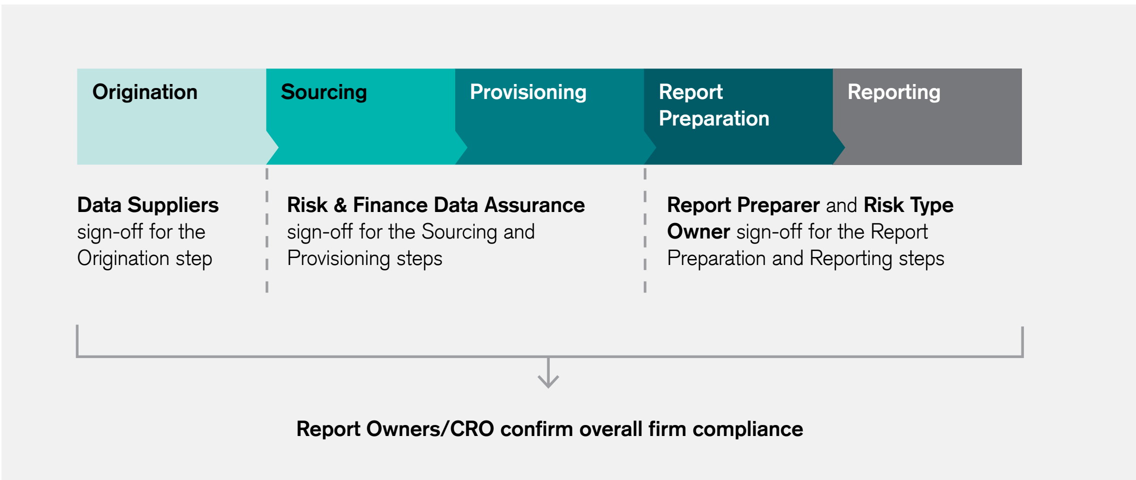
Assessments of each single type of risk for the Credit Suisse Group are aggregated. The total sum – the Economic Capital – is defined as the maximum "unexpected" loss the Group might incur over a year. This is a key measure for determining the Group's financial structure and its risk tolerance, and guiding operations, ensuring the balance between risks assumed and shareholder return.

On an operational level, Data Management Luxembourg was involved at the very bottom of the data aggregation pyramid with the annual RDAR Front Office Attestation for the data suppliers. Their role is defined in the CRO-Manual-X0022 RDAR Framework.

Data Suppliers generate or otherwise "steward"/manage data relevant for the production of in-scope risk reports. In the context of RDAR sign-off, the Data Supplier role has key responsibilities, among which: Agree with data consumer on Critical Data Elements ("CDE") and data quality requirements, confirm in-scope CDEs with Risk & Finance Data Governance ("RFDG"), identify existing key controls, remediate Data Quality Issues and control matters issues and provide annual RDAR sign-off that Critical Data Elements are accurate, complete and timely as specified in the data quality requirements.

This annual sign-off of the data suppliers for the origination step was performed jointly by the COO and CRO. The graph below shows the generic sign-off flow.

IT signs-off for the applications, platforms and interfaces used in the risk data supply chain



5. Own funds

5.1 Structure of own funds

In line with provisions of Regulation (EU) No 575/2013, the CRR, the regulatory own funds of the Bank are composed of:

- Common Equity Tier 1 ("CET 1") capital as per Article 26 of the CRR: capital instruments, share premium accounts, retained earnings excluding the current year profit, accumulated other comprehensive income, other reserves and funds for general banking risks;
- Tier 1 capital as per Article 51 of the CRR: CET 1 capital and Additional Tier 1 capital;
- Tier 2 capital as per Article 62 of the CRR: Tier 1 capital and eligible portion of subordinated long-term debt.

The Bank's regulatory own funds are exclusively composed of CET 1 and Tier 2 instruments. CET 1 capital comprises permanent share capital of ordinary shares and reserves. The ordinary shares carry voting rights and the right to receive dividends. Tier 2 capital instruments comprises a subordinated loan of EUR 30mn (CHF 32,6mn). This loan was granted in 2018 by the parent company to support the development of its activities.

The table below provides an overview of the composition of the own funds of the Bank:

Own funds composition	As of 31/12/2019 (in CHF)
Common Equity Tier 1 capital	**371.029.181**
Directly issued qualifying common share (and equivalent for non-joint stock companies) capital plus related stock surplus	258.479.954
Retained earnings	123.210.318
Accumulated other comprehensive income (and other reserves)	(5.900.455)
Other intangibles other than mortgage servicing rights ("MSR") (net of related tax liability)	(66.487)
Deferred tax assets ("DTA") that rely on future profitability, excluding those arising from temporary differences (net of related tax liability)	(4.694.149)
Additional Tier 1 capital	**–**
Tier 2 capital	**32.583.610**
Investments in own Tier 2 instruments	32.583.610
Total regulatory capital (= CET 1 + additional Tier 1 + Tier 2)	**403.612.791**

5.2 Total capital ratio

5.2.1 Overview

As of December 31, 2019, the regulatory own funds amounted to CHF 403,6mn as compared to own capital requirements of CHF 161,1mn computed with the standardized approach as defined in the CRR. This leads to a total capital ratio of 20.05%, which is well above the overall capital requirement of 11.67%[1]. The table below illustrates these facts.

1 The overall capital requirement consists of the Total SREP capital requirement ("TSCR") to which additional buffers are added. The TSCR is composed of Pillar I requirement of 8% and Pillar II requirement of 1%. In addition, the capital conservation buffer (2.5%) and the countercyclical buffer (0.17%) apply.

Capital adequacy ratio	As of 31/12/2019 (in CHF)
Total regulatory capital	**403.612.791**
CET 1 instruments	371.029.181
Additional Tier 1 instruments	–
Tier 2 instruments	32.583.610
Total risk exposure amount	**2.013.278.629**
Total capital ratio	**20.05%**
Total SREP capital requirement (“TSCR”)	**9%**
Pillar I requirement	8%
Pillar II requirement	1%
Overall capital requirement (OCR)	**11.67%**
Capital conservation buffer	2.5%
Countercyclical buffer	0.17%

5.2.2 Capital resources requirement

The Pillar I capital requirements are summarised below, along with the relevant Risk-Weighted Asset (“RWA”) values.

Own funds requirements as of 31/12/2019 (in CHF)	RWA	Pillar I capital requirements
Credit risk (excluding counterparty credit risk)	**1.482.612.444**	**118.608.995**
Of which: standardised approach	1.482.612.444	118.608.995
Of which: foundation internal ratings-based (“F-IRB”) approach	–	–
Of which: supervisory slotting approach	–	–
Of which: advanced internal ratings-based (“A-IRB”) approach	–	–
Counterparty credit risk (“CCR”)	**134.880.755**	**10.790.460**
Of which: standardised approach for counterparty credit risk	134.880.755	10.790.460
Of which: Internal Model Method (“IMM”)	–	–
Of which: other CCR	–	–
Credit valuation adjustment (“CVA”)	**13.982.371**	**1.118.590**
Market risk	**80.954.910**	**6.476.393**
Of which: standardised approach	80.954.910	6.476.393
Of which: internal models approach (IMA)	–	–
Operational risk	**300.848.149**	**24.067.852**
Of which: basic indicator approach	300.848.149	24.067.852
Of which: standardised approach	–	–
Of which: advanced measurement approach	–	–
Total	**2.013.278.629**	**161.062.290**

5.2.3 Capital conservation buffer

The Bank has to respect on top of Pillar I and Pillar II capital requirements the capital conservation buffer. The capital conservation buffer is a capital buffer of 2.5% of a bank’s total exposures that needs to be met with an additional amount of CET1 capital. The buffer sits on top of the 4.5% minimum requirement for CET1 capital. Its objective is to conserve a bank’s capital. When a bank breaches the buffer, automatic safeguards apply to limit the amount of dividend and bonus payments it can make.

5.2.4 Countercyclical capital buffer

The Bank also has to maintain a countercyclical capital buffer ("CCyB") which depends on the exposures the Bank has in the different countries where countercyclical buffer requirements apply. The CCyB is part of a set of macro prudential instruments, designed to help counter pro-cyclicality in the financial system. Capital should be accumulated when cyclical systemic risk is judged to be increasing, creating buffers that increase the resilience of the banking sector during periods of stress when losses materialise.

As of December 31, 2019, the CCyB applicable to the Bank amounts to 0.17% of its RWA and it mainly results from the exposures the Bank has in France. The table below discloses the geographical distribution of credit exposures relevant for the calculation of the Bank's specific CCyB. Countercyclical capital buffer rates are determined by the Basel Committee member jurisdictions and it only concerns credit exposures on the private sector (i.e. exposure on public sector entities and on institutions are not subject to CCyB).

Geographical breakdown as of 31/12/2019	CCyB buffer rate	Relevant capital requirement (in CHF)	Amount weighted (in CHF)
Hong Kong	2.00%	139.034	2.781
Sweden	2.50%	15.139	378
UK	1.00%	1.114.062	11.141
France	0.25%	41.125.169	102.813
Total		**42.393.404**	**117.113**

5.2.5 Total Loss Absorbing Capacity

In addition to this system, a ratio is already applicable to estimate the adequacy of the bail-in and recapitalisation capacities of Global Systemically Important Institutions (G-SII). This Total Loss Absorbing Capacity ("TLAC") ratio completes the tracking of the resolution ratio of the Minimum Requirement for Own Funds and Eligible Liabilities ("MREL") as defined in the Bank Recovery and Resolution Directive ("BRRD").
Each of these ratios links an amount of regulatory capital and instruments eligible for risk and/or leverage exposure.
The Bank is asked to comply with the MREL at the level of 3.25% of total liabilities and own funds ("TLOF") at all times.

MREL (minimum requirement for own funds and eligible liabilities)	As of 31/12/2019 (in CHF mn)
Total Liabilities and Own Funds (TLOF)	**8.589**
Own funds	403,6
MREL ratio	4.69%
Regulatory minimum	3.25%
TLOF maximum	12.419

This minimum requirement has been fulfilled as per December 31, 2019 and throughout the year.

6. Linkages between financial statements and regulatory exposures

This section provides information about the linkage between the carrying values presented in the financial statements and the regulatory exposures of the bank. As requested by the CRR, the following table provides a breakdown of the balance sheet into the risk frameworks used to calculate the regulatory capital requirements.
The following table illustrates the key differences between regulatory exposure amounts and accounting carrying values under the regulatory scope of consolidation.
The financial statements of CSL are disclosed in Lux GAAP (as per article 83 of the law of June 17, 1992, as amended) whereas the Finrep and Corep reporting is based on the IFRS accounting standards leading to the following disclosure and valuation differences.

- Regulatory exposures include also reverse repurchase agreements which are not disclosed separately under Lux GAAP (under Loans and advances to credit institutions);
- Unrealized gains from the revaluation of derivatives are not recognized under Lux GAAP;
- Part of the Bank's obligations from leases are only measured under IFRS 16 (and reported under Property, plant and equipment), whereas they are unrecognized through the Profit & Loss account under Lux GAAP;
- Expected credit losses ("ECL") measured according to IFRS 9 are reported under IFRS, whereas only provisions for specific credit risks have been recorded by the Bank under Lux GAAP;
- Pension liabilities are measured in accordance with IAS 19 ("Employee benefits") and partially recorded against revaluation reserves under IFRS , whereas under Lux GAAP the actuarial measurement is based on the law of June 8, 1999 and all valuation changes are recognized under the Profit & Loss account;
- Deferred taxes are only calculated under IFRS.

The scope of prudential consolidation does not differ from the accounting scope of consolidation as reported in the financial statements.

Assets as of 31/12/2019 (in CHF)	Carrying values as reported in published financial statements	Carrying values under scope of regulatory consolidation	Carrying values of items: Subject to credit risk framework	Subject to counterparty credit risk framework	Subject to the securitisation framework	Subject to the market risk framework	Not subject to capital requirements or subject to deduction from capital
Cash and balances at central banks	2.047.109.963	2.047.109.963	2.047.109.963	–	–	–	–
Financial assets designated at fair value	57.008	57.008	57.008	–	–	–	–
Derivative financial instruments	–	22.277.640	22.857.336	50.201.531	–	–	–
Loans and advances to banks	2.908.596.148	2.300.885.110	2.300.885.110	–	–	–	–
Loans and advances to customers	3.498.500.868	3.497.731.316	3.495.515.338	–	–	–	–
Reverse repurchase agreements and other similar secured lending	–	608.189.003	–	608.189.003	–	–	–
Current and deferred tax assets	–	6.997.228	2.303.079	–	–	–	4.694.149
Prepayments, accrued income and other assets	111.452.970	93.040.781	93.040.781	–	–	–	–
Goodwill and intangible assets	66.487	66.487	–	–	–	–	66.487
Property, plant and equipment	6.620.416	12.888.993	12.888.993	–	–	–	–
Total assets	**8.572.403.860**	**8.589.243.528**	**7.974.657.607**	**658.390.534**	**–**	**–**	**4.760.636**

Liabilities as of 31/12/2019 (in CHF)	Carrying values as reported in published financial statements	Carrying values under scope of regulatory consolidation	Carrying values of items: Subject to credit risk framework	Subject to counterparty credit risk framework	Subject to the securitisation framework	Subject to the market risk framework	Not subject to capital requirements or subject to deduction from capital
Deposits from banks	598.125.011	595.531.698	–	–	–	–	595.531.698
Customer accounts	7.443.490.201	7.455.523.963	–	–	–	–	7.455.523.963
Derivative financial instruments	–	26.239.442	–	–	–	–	26.239.442
Accruals, deferred income and other liabilities	47.098.851	34.876.002	–	–	–	–	34.876.002
Current and deferred tax liabilities	11.220.230	5.812.098	–	–	–	–	5.812.098
Subordinated liabilities	32.583.611	32.583.611	–	–	–	–	32.583.611
Provisions	6.319.155	2.399.759	–	–	–	–	2.399.759
Retirement benefit liabilities	14.820.787	26.261.142	–	–	–	–	26.261.142
Total liabilities	**8.153.657.846**	**8.179.227.715**	**–**	**–**	**–**	**–**	**8.179.227.715**

7. Information on credit risk

The Bank defines credit risk as the risk of financial loss arising as a result of a borrower or counterparty failing to meet its obligations or as a result of deterioration in the credit quality of the borrower or counterparty.

The methodology to compute capital requirements for credit risk is presented in Title II of Part Three of the CRR. In terms of approach, CSL uses the standardised approach for credit risk, which is documented in Articles 111 to 141 of the CRR. This approach relies on the application of risk weights, which are based on:

- Counterparty type;
- Credit quality of counterparties;
- Residual maturity of exposures.

7.1 Credit risk management framework

7.1.1 Credit product offering

The Bank has a wide-range of credit products to service the needs of its different clients:

- Lombard Lending: loans, guarantees and limits for financial derivatives granted to Private Banking clients and fully collateralized by marketable securities pledged in favour of the Bank. As a subset, the Lombard offering includes share backed lending (Structured Lombard loans, including against single stocks).
- Mortgage Lending: offered to Private Banking clients booked on CSL platform secured by properties located in France only (Paris, South-East and Rhône-Alpes region) with limited Loan to Value ("LTV").
- Secured Lending: for investment funds, bridge financing and limits for hedging purpose fully collateralized by marketable securities pledged in favour of the Bank.
- Cash flow based Corporate Loans: typically operating and investment loans on a mainly unsecured basis for corporates.

7.1.2 Credit approval process

All credit applications are submitted by the relevant Relationship Manager ("RM") to Credit Risk Management department ("CRM") which approves credit limits in accordance with defined credit approval authorities. Approved credit limits are recorded in the system and reflect the Bank's risk appetite.

A final control function is in place within CRM to ensure a consistent and unified approach. The purpose of this control is to make sure that all credit limits are approved according to approval authorities and the set up in the system is in accordance with the Bank's Credit Risk Management framework and guidelines.

7.1.3 Credit risk monitoring/annual review process

Compliance of all credit exposures with approved credit limits and the availability of sufficient collateral are monitored by a fully automated tool on a daily basis at single client level. CRM can escalate any breach of credit limit or collateral shortfall not cured within defined time frame and can liquidate the client's portfolio (margin call process) to recover the full loan amount including interest, if deemed necessary.

Additionally, Cash flow based Corporate loans are reviewed on an annual basis. The creditworthiness of the borrower and guarantors is re-assessed based on financial analysis in accordance with internal guidelines. Structured Lombard financings which require in-depth monitoring of the underlying collateral structure are also reviewed annually, as defined in the original approval and in line with Credit Suisse and CSL internal guidelines.

Mortgage loans are submitted to intermediary credit reviews, including update of respective property valuation which are conducted annually for properties with a non-private usage and at least every 3 years for properties with a private usage.

The main risk driver is of operational nature, being a negligence of compliance with approval or monitoring processes in place. Control governance on operational and management level can be considered as a strong mitigating factor.

7.1.4 Definition of past due and impairment

For its credit risk exposures to clients, the Bank uses the watchlist process and the days-past-due as a primary indicator of a significant increase in credit risk. A past-due is a loan payment that has not been made at its due date. As part of the International Financial Reporting Standards ("IFRS 9") framework, exposures that are more than 30 days-past-due or on the watchlist are allocated to stage 2 and exposures with more than 90 days-past-due are allocated to stage 3, which is equivalent to default.

The Bank considers that a financial asset is credit-impaired when one or more events having a detrimental impact on future estimated cash-flows have occurred.

7.1.5 Stress testing

Stress tests aim to assess the exposure and expected loss in case of deteriorating economic conditions. In this context, the Bank has developed an internal approach, which allows incorporating derivative exposure and derivative hedging benefits. The stress testing framework covers also the Corporate loan portfolio.

Stress tests for Lombard and Corporate loan book of the Bank are part of the Credit Suisse's stress testing program and are run centrally by Credit Suisse's stress testing team. The Bank uses the same IT platform for credit business as Credit Suisse in Switzerland. This allows to leverage the existing stress testing approach. Based on this framework, CRM Luxembourg is performing plausibility analyses and sample checks upon reception of relevant data filed locally. Changes to the approach (incl. assumptions) are discussed with Credit Suisse's stress testing team.

7.2 Credit risk exposures

Under the Standardised Approach to risk weights, ratings published by External Credit Assessment Institutions ("ECAIs") are mapped to Credit Quality Steps ("CQS") according to mapping tables laid down by the EBA. The CQS value is then mapped to a risk weight percentage. The ECAIs used by the Bank are Standard & Poor's, Moody's and Fitch.

7.2.1 Breakdown of on- and off-balance exposures according to regulatory exposure classes

As disclosed in the table below, total credit risk exposure (on-balance and off-balance exposures net of value adjustments and provisions) amounts to CHF 8.193mn as of December 31, 2019.

Exposure amounts as of 31/12/2019 (in CHF)	On-balance sheet amount	Off-balance sheet amount	Total exposure
Sovereigns and their central banks	2.047.109.964	–	2.047.109.964
Non-central government public sector entities	–	–	–
Multilateral development banks	–	–	–
Banks	2.300.978.140	232.946	2.301.211.086
Securities firms	–	–	–
Corporates	3.046.698.203	191.846.188	3.238.544.391
Regulatory retail portfolios	69.257.842	42.456.007	111.713.849
Secured by residential property	324.375.543	4.272.835	328.648.378
Secured by commercial real estate	–	–	–
Equity	57.008	–	57.008
Past-due loans	30.649.146	–	30.649.146
Higher-risk categories	6.856.701	–	6.856.701
Other assets	128.076.983	–	128.076.983
Total	**7.954.059.530**	**238.807.976**	**8.192.867.506**

7.2.2 Credit quality of assets

The table below provides an overview of the credit quality of client assets. This includes the split of defaulted versus non-defaulted exposures and well as a view on allowances and impairments.

	Gross carrying values of:			Of which ECL accounting provisions for credit losses:		
As of 31/12/2019 (in CHF)	**Defaulted exposures**	**Non-defaulted exposures**	**Allowances/ impairments**	**Allocated in regulatory category of Specific**	**Allocated in regulatory category of General**	**Net values**
Loans	41.028.099	5.764.411.123	6.822.797	3.008.625	–	5.798.616.425
Debt Securities	–	–	–	–	–	–
Off-balance sheet exposures	–	238.808.729	753	–	–	238.807.976
Total	**41.028.099**	**6.003.219.852**	**6.823.550**	**3.008.625**	**–**	**6.037.424.401**

Non-performing loans are typically 90 past due and are represented by above amount of defaulted exposures which mainly consist of mortgage loans for residential property financing in France. Respective cases are managed by recovery specialists. Since notional amount against 1st rank mortgage is fully covered by market value of the properties, credit provisions are entirely covering unpaid interest.

7.2.3 Changes in stock of defaulted loans and debt securities

The table below provides an overview of the evolution of the stock of defaulted loans between December 31, 2018 and December 31, 2019. As illustrated below, the Bank did not recognize any new defaulted exposure in 2019. The stock between 2018 and 2019 decreased by CHF 7,7mn and it is mainly due some loans that have returned to the non-defaulted status.

Changes in stock of defaulted items in 2019	Amounts in CHF
Defaulted loans and debt securities as of 31/12/2018	**48.679.359**
Loans and debt securities that have defaulted since the last reporting period	–
Returned to non-defaulted status	(6.347.329)
Amounts written off	(8.747.049)
Other changes	7.443.118
Defaulted loans and debt securities as of 31/12/2019	**41.028.099**

7.2.4 Credit risk mitigation techniques

The table below provides a split of exposures based on collateral that is used to mitigate the client exposures. It shows that most customer credit exposures are secured by collateral, financial guarantees or credit derivatives.
The unsecured part refers to a large extent to exposures to credit institutions and the central bank where no eligible credit risk mitigation technique is taken into account.

As of 31/12/2019 (in CHF)	**Exposures unsecured**	**Exposures secured**	**Exposures secured by collateral**	**Exposures secured by financial guarantees**	**Exposures secured by credit derivatives**
Loans	5.834.398.169	2.358.469.337	1.607.329.058	240.033.998	511.106.281
Debt securities	–	–	–	–	–
Total	**5.834.398.169**	**2.358.469.337**	**1.607.329.058**	**240.033.998**	**511.106.281**
Of which defaulted	29.685.781	7.820.067	–	7.820.067	–

7.2.5 Split of credit risk exposure based on regulatory exposure classes and risk weights

The table below provides a breakdown of on- and off balance sheet exposures (net of impairments and provisions) per regulatory exposure class and per risk weight. As illustrated, the Bank's main exposures are to sovereign and central banks, credit institutions and corporate clients.

In terms of risk weights, the Bank's exposures are mainly concentrated on the risk weights 0%, 20% and 100%. This results from the fact that exposures to sovereign and central banks consist of central bank reserves that are risk weighted at 0% according to Article 114(4) of the CRR.

Regarding exposures towards credit institutions, most exposures have a short-term maturity and the counterparties of the Bank generally at least benefit from a CQS 2. According to Article 120 of the CRR, the applicable risk weight on such exposures is 20%.

In terms of corporate exposures, most counterparties do not have a credit rating from an ECAI. Such exposures are risk weighted at 100% according to Article 122 of the CRR.

Asset classes	Risk weight 0%	10%	20%	35%	50%	75%	100%	150%	Others	On- and off-balance sheet exposures net of value adjustments and provisions as of 31/12/2019 (in CHF)
Sovereigns and their central banks	2.047.109.964	–	–	–	–	–	–	–	–	2.047.109.964
Non-central government public sector entities	–	–	–	–	–	–	–	–	–	–
Multilateral development banks	–	–	–	–	–	–	–	–	–	–
Banks	–	–	2.301.076.885	–	134.201	–	–	–	–	2.301.211.086
Securities firms	–	–	–	–	–	–	–	–	–	–
Corporates	–	–	–	–	52.511.033	–	3.212.885.822	7	–	3.265.396.862
Regulatory retail portfolios	–	–	–	–	–	111.610.758	–	–	–	111.610.758
Secured by residential property	–	–	–	301.898.998	–	–	–	–	–	301.898.998
Secured by commercial real estate	–	–	–	–	–	–	–	–	–	–
Equity	–	–	–	–	–	–	57.008	–	–	57.008
Past-due loans	–	–	–	–	–	–	30.649.146	6.856.701	–	37.505.847
Higher-risk categories	–	–	–	–	–	–	–	–	–	–
Other assets	–	–	–	–	–	–	128.076.983	–	–	128.076.983
Total	**2.047.109.964**	–	**2.301.076.885**	**301.898.998**	**52.645.234**	**111.610.758**	**3.371.668.959**	**6.856.708**	–	**8.192.867.506**

7.2.6 Credit risk exposure and credit risk mitigation effects

The table below provides an overview of the effects of credit risk mitigation. As illustrated, most exposures are covered by collateral, which is eligible from a credit risk management perspective. This explains why the on-balance sheet exposure post CCF (credit conversion factor) and CRM (credit risk mitigation technique) is significantly lower for corporate and retail exposure classes. All this leads to an overall RWA density of 18.64%.

As of 31/12/2019 (in CHF)	Exposures before CCF and CRM		Exposures post-CCF and CRM		RWA and RWA density	
Asset classes	**On-balance sheet amount**	**Off-balance sheet amount**	**On-balance sheet amount**	**Off-balance sheet amount**	**RWA**	**RWA density**
Sovereigns and their central banks	2.047.109.964	-	2.047.777.896	-	89.373	0.00%
Non-central government public sector entities	–	–	–	–	–	0.00%
Multilateral development banks	–	–	–	–	–	0.00%
Banks	2.300.978.139	232.946	3.049.957.919	813.851	614.391.909	26.70%
Securities firms	–	–	–	–	–	0.00%
Corporates	3.046.698.203	191.846.188	599.851.716	32.081.716	605.677.919	19.88%
Regulatory retail portfolios	69.257.843	42.456.007	6.986.988	3.814.054	8.100.782	11.70%
Secured by residential property	324.375.543	4.272.835	274.662.199	718.750	96.383.332	29.71%
Secured by commercial real estate	–	–	–	–	–	0.00%
Equity	57.008	–	57.008	–	57.008	100.00%
Past-due loans	30.649.146	–	29.387.067	–	29.387.067	95.88%
Higher-risk categories	6.856.701	–	298.714	–	448.071	6.53%
Other assets	128.076.983	–	128.076.983	–	128.076.983	100.00%
Total	**7.954.059.530**	**238.807.976**	**6.137.056.490**	**37.428.371**	**1.482.612.444**	**18.64%**

7.2.7 Geographical breakdown of exposures

Main exposure to Swiss Institutions is intra-group related. In Luxembourg, Corporate exposure is dominated by Lombard business with Investment Funds and Private Banking clients. French exposure to Corporates is mainly Private Banking related and to a much smaller extent Corporate Lending; mortgage business pertains only to the CSL French branch and is secured by French properties. Private Banking Lombard business makes up almost all of Dutch Corporate exposure.

The below table shows the most relevant geographical areas of CSL's credit exposure. The materiality threshold of countries has been fixed at 10% (total other countries/total net exposure >10%).

As of 31/12/2019 (in CHF)	Significant area 1	Country 1	Country 2	Country 3	Country 4	Other countries	Significant area N	Country N	Other geographical areas*	Total
	EU*	CH	LU	FR	NL	Other EU*	NA*	VG		
Central governments or central banks	2.047.109.964	–	2.042.766.641	–	–	4.343.324	–	–	–	2.047.109.964
Regional governments or local authorities	–	–	–	–	–	–	–	–	–	–
Public sector entities	–	–	–	–	–	–	–	–	–	–
Multilateral development banks	–	–	–	–	–	–	–	–	–	–
International organisations	–	–	–	–	–	–	–	–	–	–
Institutions	2.913.295.383	2.862.542.774	36.636.761	1.245.654	2.970.108	9.900.087	35.176.109	–	8.102.456	2.956.573.948
Corporates	2.610.071.754	152.743.475	573.212.769	1.109.153.039	137.888.628	637.073.843	496.709.386	308.534.058	187.090.839	3.293.871.979
Retail	109.885.535	2.952.725	6.102.183	44.270.412	4.905.088	51.655.127	5.767	–	2.044.943	111.936.245
Secured by mortgages on immovable property	299.668.601	1.199.077	42.684.531	239.530.687	701.274	15.553.032	–	–	2.230.396	301.898.998
Exposures in default	41.303.949	11.552.199	159.220	29.508.470	567	83.492	2.988	2.602	13.082	41.320.019
Items associated with particularly high risk	–	–	–	–	–	–	–	–	–	–
Covered bonds	–	–	–	–	–	–	–	–	–	–
Claims on institutions and corporates with a short-term credit assessment	–	–	–	–	–	–	–	–	–	–
Collective investments undertakings	–	–	–	–	–	–	–	–	–	–
Equity exposures	57.008	–	50.000	7.008	–	–	–	–	–	57.008
Other exposures	141.852.263	1.307.030	125.140.172	8.556.631	1.166.720	5.681.710	–	–	–	141.852.263
Total	**8.163.244.457**	**3.032.297.280**	**2.826.752.277**	**1.432.271.901**	**147.632.385**	**724.290.615**	**531.894.250**	**308.536.660**	**199.481.716**	**8.894.620.423**

EU*: Europe
Other EU*: represent the other European countries that are AT, IT, PT, MC, GB, IE, BE, JE, ES, SE, AD, DE, MT, UA, DK, IM, RO, RU, GG, CW, FI, PL, CZ, TR, NO, LI, GR, HU, EE, IS, GI
NA*: North America
Other geographical areas*: others than countries in EU and NA: BR, HK, IN, CN, CY, MA, KR, QA, SG, TH, ZA, EG, TW, ID, PH, MU, AE, IL, SA, LB, CO, AU, SC, PK, CL

7.3 Counterparty credit risk

Counterparty credit risk ("CCR") arises from over the counter ("OTC") and exchange-traded derivatives, repurchase agreements, securities lending and borrowing and other similar products and activities such as structured or securities financing transactions ("SFT"). 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.

The Bank and its branches are not performing any proprietary trading activities and are only entering into securities and other financial instruments transactions on behalf of clients. Trading transactions are generally entered into on either an agency or back-to-back basis.

The Bank calculates exposure at default ("EAD") for derivatives under the Counterparty Credit Risk Mark-to-market Method ("CCRMTM") approach. The CCRMTM calculation is presented in Article 274 of the CRR and it takes into account potential future credit exposure ("PFCE") and thus may generate exposures greater than the derivative net replacement values.

The table below provides an overview of counterparty credit risk exposures per approach.

Amounts as of 31/12/2019 (in CHF)	**Replacement cost**	**Potential future exposure**	**Effective EPE (expected positive exposure)**	**Alpha used for computing regulatory EAD**	**EAD post-CRM**	**RWA**
Mark-to Market Approach (for derivatives)	22.249.103	50.809.764		1,4	–	13.261.560
Internal models method (for derivatives and securities financing transactions, or SFTs)			–	–	–	–
Simple Approach for credit risk mitigation (for SFTs)					608.095.973	121.619.195
Comprehensive Approach for credit risk mitigation (for SFTs)					–	–
Value-at-risk (VaR) for SFTs					–	–
Total						**134.880.755**

The table presents a breakdown of CCR exposures per counterparty type and per risk weight.

Regulatory portfolio	**Risk weight**								**Exposures net of value adjustments and provisions as of 31/12/2019 (in CHF)**
	0%	**10%**	**20%**	**50%**	**75%**	**100%**	**150%**	**Others**	
Sovereigns	–	–	–	–	–	–	–	–	–
Non-central government public sector entities	–	–	–	–	–	–	–	–	–
Multilateral development banks	–	–	–	–	–	–	–	–	–
Banks	–	–	654.171.574	144.256	–	877.042	–	–	655.192.872
Securities firms	–	–	–	–	–	–	–	–	–
Corporates	–	–	–	–	–	25.733.811	–	–	25.733.811
Regulatory retail portfolios	–	–	–	–	228.157	–	–	–	228.157
Other assets	–	–	–	–	–	–	–	–	–
Total	**–**	**–**	**654.171.574**	**144.256**	**228.157**	**26.610.853**	**–**	**–**	**681.154.840**

7.4 Credit valuation adjustment

The Credit Valuation Adjustment ("CVA") is 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. The CRR/CRD IV package requires credit institutions to compute capital requirements for CVA for all OTC derivative instruments, other than credit derivatives intended to mitigate risk weighted exposure amounts for credit risk.

As illustrated in the below table, CSL computes the CVA using the standardised approach, which is described in Article 384 of the CRR. As of December 31, 2019, the CVA capital charge amounts to CHF 1.1mn.

December 31, 2019 (in CHF)	EAD post-CRM	RWA	Own funds requirements
Total portfolios subject to the Advanced CVA capital charge	–	–	–
(i) VaR component (including the 3×multiplier)		–	–
(ii) Stressed VaR component (including the 3×multiplier)		–	–
All portfolios subject to the Standardised CVA capital charge	50.081.054	13.982.371	1.118.590
Total subject to the CVA capital charge	**50.081.054**	**13.982.371**	**1.118.590**

8. Information on market risk

8.1 Overview

The Bank and its branches are not performing any proprietary trading activities and are only entering into securities and other financial instruments transactions on behalf of clients.

8.2 Market risk management framework

CSL defines market risk as the risk of financial loss from adverse changes in market prices, including interest rates, credit spreads, foreign exchange rates, equity and commodity prices, and other factors such as market volatility and the correlation of market prices across asset classes.

Market risk is part of the RAS of CSL approved by the BoD setting the risk appetite and risk limits to be adhered to by the Bank. The appetite for this risk is minimal/modest as the Bank recognizes that this risk is inherent in the business. In terms of exposures, market risk is only taken through the provision of credit offerings, deposit taking, and “Riskless Principal”.

As part of its activities, the Bank is exposed to the following types of market risk:

- Foreign exchange risk;
- Interest rate risk.

These sub-risks are further presented in the following sub-sections.

In terms of monitoring and controls of market risk, the stability of earnings via sound management of market risk includes:

- Daily market risk reports which deals both with foreign exchange and interest rate risk;
- ALCO report (monthly);
- CRO risk report (quarterly).

In the event that risk limits are breached, reporting and escalation processes are in place.

8.2.1 Foreign exchange risk

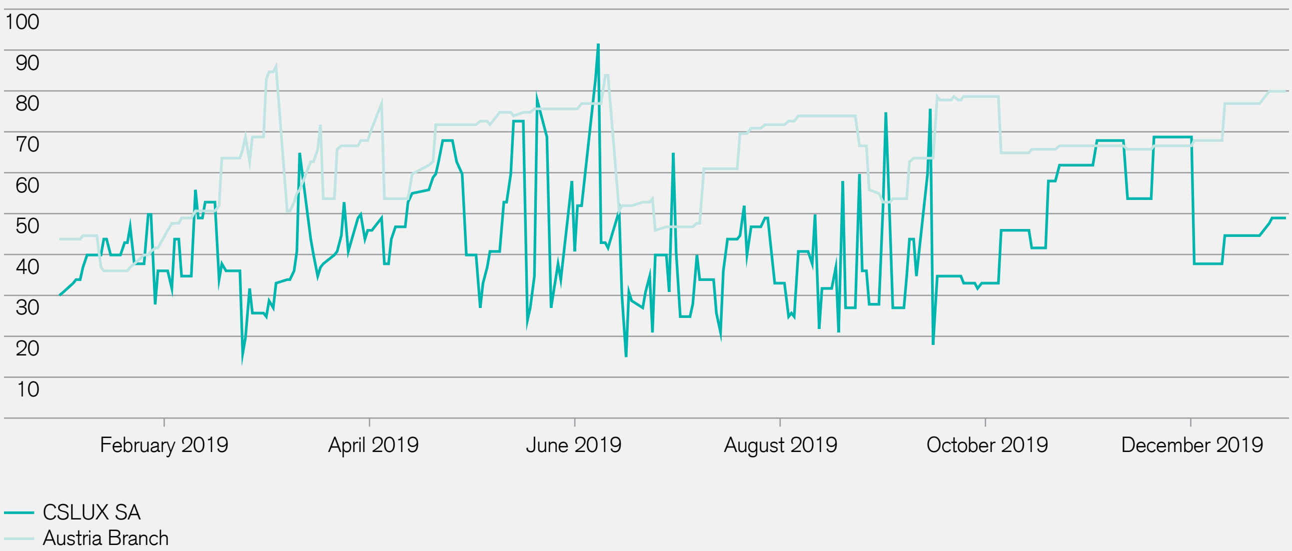
Foreign exchange risk (“FX risk”) arises as a consequence of intraday exposures from foreign exchange trading on behalf of clients to facilitate the bulking of client positions. As foreign exchange risk is not part of core activities of the Bank, the appetite for this risk is minimal. When exposures to foreign exchange risk arise, the Bank will seek to mitigate these risks.

FX risk is managed through daily monitoring and the utilization of exposures limits. The table below presents the limits that are in place.

FX Flag (in USD mn)	Limit	Utilization 31/12/19	Reporting frequency
CS Luxembourg	1,2	49%	Daily
CSL Austria Branch	0,4	80%	Daily

Over 2019, no breach of foreign exchange exposure limit has been reported. The compliance with the foreign exchange exposure limit over 2019 is presented on the below graph.

FX flag usage (in % – overview 2019)



8.2.2 Interest rate risk (IR)

The Bank defines interest rate risk ("IR") as potential risk to earnings arising primarily as a consequence of the banking book, and to a lesser extent, other interest-rate sensitive earnings. The appetite for this risk is modest as the Bank is willing to accept these risks in certain circumstances, up to specified risk tolerances, in exchange for appropriate risk adjusted returns. However, interest rate risk is not central to achieving the business strategy.

In terms of exposures, the Bank is mainly exposed to structural interest rate, which arises primarily from loans and deposits. In this context, interest rate risk is limited at the level arising from the provision of credit offerings and deposit taking under consideration of the leverage ratio exposure. Interest rate risk on the Banking Book ("IRRBB") is hedged through interest rate swaps.

The Bank monitors its exposure to interest rate risk using stress tests:

a) the +200bp/-200bp stress test framework according to the CSSF circular 08/338 and CSG interest rate risk in the Banking Book methodology.

b) the new EBA guideline stress test (BCBS 368).

8.3 Market risk exposures

Under Pillar I capital requirements, institutions are required to compute capital requirements for market position risk, FX risk and commodities risk.

As mentioned in the previous sections, the Bank is exposed to foreign exchange and interest rate risks. Therefore, the Bank computes Pillar I capital requirements for foreign exchange risk, as illustrated in the table below.

Products	RWA as of 31/12/2019 (in CHF)
Outright products	
Interest rate risk (general and specific)	–
Equity risk (general and specific)	–
Foreign exchange risk	80.954.910
Commodity risk	–
Options	
Simplified approach	–
Delta-plus method	–
Scenario approach	–
Securitisation	**–**
Total	**80.954.910**

As part of its Internal Capital Adequacy Assessment Process ("ICAAP"), the Bank evaluates its exposures to all risks, including the ones that are not taken into account as part of Pillar I capital requirements. In this context, the Bank computes as part of its ICAAP Pillar II capital requirements for interest rate risk.

The Bank has adopted the regulatory stress test defined in the CSSF circular 08/338 (as amended by circular CSSF 16/642) and in line with Credit Suisse global methodology, i.e. a parallel shift of the interest rate curve by 200bps. The underlying interest rate risk is reflected in terms of capital loss and can be stressed effectively.

In order to reflect the stress test over the period, CSL applies a capital charge equal to the maximum risk appetite of 3% of the regulatory capital.

As at December 31, 2019, the overall negative impact of the stress test was as follows:

Parallel shift of +200 bps	Parallel shift of -200 bps
USD (7,9mn)	USD 7,4mn

In addition to CSSF circular 08/338, the Bank also implemented the provisions of EBA guidelines for interest rate risk in the banking book (EBA/GL/2018/02). The purpose of this new framework is provide information on the Bank's changes in economic value of equity and net interest income under each of the prescribed interest rate shock scenarios.

The Bank has implemented the FINMA-mandated scenarios on the regulatory Economic Value of Equity ("ΔEVE") and Net Interest Income ("ΔNII") risk measures. Beyond the regulatory scenarios, Credit Suisse has also defined a comprehensive set of internal stress test scenarios. The scenarios are reviewed periodically in terms of both scenario selection and calibration of the shocks applied, reflecting changes in macroeconomic conditions and specific interest rate environments.

The impact of interest rate shocks on their change in Economic Value of Equity (ΔEVE) and net interest income (ΔNII), are computed based on a set of prescribed interest rate shock scenarios (see below tables).

The Bank does not have a regulatory requirement to hold capital against IRRBB. The economic impacts of adverse shifts in interest rates are significantly below the 15% of tier 1 capital – the threshold used by the regulator to identify banks that can potentially run excessive levels of interest rate risk.

The impact on the Bank's capital for both equity value of equity (ΔEVE) and net interest income (ΔNII) would be less than 3%.

Measured ΔEVE

Based on Annex II (the standardised interest rate shock scenarios) EBA guidelines EBA/GL/2018/02, on a monthly basis, these six regulatory scenarios are simulated and the worst case is compared to regulatory own funds.

(USD thousands)	Stress Value 31/12/2019	Worst Scenario	BIS Usage
Parallel Up	(7.825,65)		
Parallel Down	7.305,65		
Steepener	4.767,60		
Flattener	(6.197,37)		
Short Up	(8.234,94)	Short Up	1.98%
Short Down	8.103,56		

Relevant market risk positions are updated on a weekly basis and fed into the Credit Suisse global market risk system ("MARS"). The figures below show the impact of instantaneous shocks on rates in a Mark-to-Market ("MTM") sense, regardless of whether positions are actually subject to MTM accounting (consistent with Credit Suisse global standards).
The interest rate stress test is performed on a monthly basis.

The following list summarizes the key modelling and parameter assumptions used:

- ΔEVE is measured by excluding client margins and applying risk-free discounting.
- Following the internal approach for ΔEVE, the aggregation logic for each of the six prescribed regulatory scenarios allows for diversification between the different currencies.
- Additional tier 1 capital is excluded from the regulatory ΔEVE measure.
- ΔEVE is calculated using a sensitivity-based approach.

Measured Net Interest Income (ΔNII)

Net Interest Income (ΔNII) stress test is included as quantitative report.

Interest Income Report in CHF mn		Interest income	Delta	Average balance	Yield
Assets					
Total Assets	DDE_Reference Scenario	67,7	67,7	8.578	0.79%
	DDE_Scenario BCBS shock Up	210,7	143,0	8.578	2.46%
	DDE_Scenario BCBS shock Dn	(45,4)	(113,1)	8.578	(0.53%)
Liabilities					
Total liabilities	DDE_Reference Scenario	(53,8)	(53,8)	(8.306)	0.65%
	DDE_Scenario BCBS shock Up	(208,8)	(155,0)	(8.306)	2.51%
	DDE_Scenario BCBS shock Dn	104,1	157,9	(8.306)	(1.25%)
Total on B/S	DDE_Reference Scenario	13,9	13,9	272	5.11%
	DDE_Scenario BCBS shock Up	1,9	(12,0)	272	0.71%
	DDE_Scenario BCBS shock Dn	58,7	44,8	272	21.57%
Off Balance Sheet					
Total off B/S	DDE_Reference Scenario	(0,5)	(0,5)	(0)	1136.94%
	DDE_Scenario BCBS shock Up	1,5	2,0	(0)	(3449.40%)
	DDE_Scenario BCBS shock Dn	(2,6)	(2,0)	(0)	5750.93%
Total					
Total	DDE_Reference Scenario	13,4	13,4	272	4.92%
	DDE_Scenario BCBS shock Up	3,4	(10,0)	272	1.27%
	DDE_Scenario BCBS shock Dn	56,2	42,8	272	20.64%

Regulatory Net Interest Income:

- The regulatory constant balance sheet assumptions prescribe using both constant volumes and constant margins throughout the one-year horizon.
- Volumes are kept constant, both in balance sheet size and product composition.
- Margins are kept at a constant level for the new positions, in line with the maturing positions.
- In accordance with regulatory guidance, cash positions held at central banks are excluded.

9. Information on operational risk

9.1 Overview

Operational risk is defined as the risk of loss arising from inadequate or failed internal processes, people and systems, or from external events. The methodology to compute capital requirements for operational risk is presented in Title III of Part Three of the CRR.

The Bank has opted for the Basic Indicator Approach ("BIA")[2] to compute the regulatory capital requirements to cover operational risks of the Bank, which is outlined in the following:

Year End (in CHF)	2019	2018	2017
Positive annual gross income	167.179.746	169.378.504	144.798.788,47

Own funds requirements for operational risk are computed as follows:

$$\text{Capital requirements for operational risk} = 15\% * \frac{\sum_{i=1}^{3} \text{Relavant indicator}_{t-i}}{3}$$

The relevant indicator is the positive annual gross income as per audited CSL Finrep year-end figures (i.e. the above 2019 figure is still referring to the audited Finrep of 2018 as the Finrep as per December 31, 2019 is not audited yet when the Corep needs to be reported to the CSSF). This leads to capital requirements for operational risk amounting to CHF 24.067.852 which corresponds to CHF 300.848.149 of RWA.

9.2 Operational risk management framework

The Bank considers operational risk as a major risk source it is exposed to. As such, operational risk is closely monitored based on a set of established policies and procedures. When dealing with operational activity, employees are expected to closely follow applicable rules and procedures so as to reduce the frequency of operational error events and the impact of such events.

In order to monitor its exposure to operational risk, CSL maintains an incident database ("MyIncidents") where operational risk incidents are recorded. Moreover, the Bank analyses and follows up on operational errors. MyIncidents is applied at Credit Suisse level and includes amongst others lessons learned and risk remediation actions.

The way operational risk incidents are treated is governed by a Credit Suisse policy. The policy describes the principle for the identification, valuation, capturing and reporting of internal and external operational risk incidents and associated roles and responsibilities.
In addition to the on-going analysis and follow-up on incidents, the Bank has kicked-of different initiatives in the course of 2019, to further improve the risk culture, to strengthen risk transparency and to further improve the speak-up culture in the organization to manage operational risk in line with the risk appetite and business growth.

2 Capital requirements under the BIA is calculated at 15% of a firm's three-year average net operating income.

10. Information on liquidity risk

10.1 Overview

Liquidity risk can be defined as the risk that the Bank will not have the appropriate amount of funding and liquidity to meet its obligations as they come due.

Liquidity risk is addressed in Part Six of the CRR, which requires banks to compute the liquidity coverage ratio ("LCR") and the net stable funding ratio ("NSFR"). These two ratios have been introduced after the financial crisis and their purpose is to provide visibility on the exposure of an institution to liquidity risk.

10.2 Liquidity risk management framework

The BoD recognizes that the maintenance of sufficient liquidity is fundamental to the prudent management of a bank. The process of managing liquidity within the Bank is fully integrated into global liquidity management process within Credit Suisse. This process also recognizes the requirement to ensure that CSL maintains a liquidity position within guidelines set by the CSSF. AM is responsible for the development and implementation in accordance with the principles and objectives established by the BoD.

The liquidity management treasury function is mandated to the placement a prudent approach in term of daily management and long-term liquidity planning:

- Ensure that all dimensions of risks are covered in compliance with Committee of European Banking Supervisors ("CEBS") recommendations.
- Ensure that i) sufficient competent executing personnel and appropriate infrastructure are available to secure sound liquidity management and realization of the objectives set in the risk & liquidity policy, ii) monitoring of the Luxembourg liquidity risk is within an existing risk management function located in Luxembourg, iii) liquidity management decisions, liquidity management and liquidity monitoring may not be externalized.
- On a regular basis assess the adequacy of the liquidity policy and verify that it is fully implemented and followed by staff.
- Report to the BoD on matters relevant to the policy and the status and efficiency of its implementation at least once a year (including, but not limited to the achievement of compliance-related objectives, the human and technical resources needed to achieve these objectives).

(1) Liquidity Strategy
The Bank is able to meet all contractual, contingent and regulatory obligations on both an ongoing business as usual basis, and in period of liquidity stress and is able to continue to pursue activities for a period of time without changing business plans.

(2) The Bank Risk Appetite for Liquidity.
The Bank defines its appetite for Liquidity & Funding Risk as minimal. The Risk Appetite Statement requires that the Bank is able to meet all contractual, contingent and regulatory obligations on both an ongoing business as usual basis, and in period of liquidity stress and is able to continue to pursue its activities for a period of time without changing business plans. CSL liquidity situation is robust with a business model generating an excess of liquidity which is either up-streamed within Credit Suisse or placed as liquidity buffer with the Banque Centrale du Luxembourg ("BCL").

(3) Liquidity Management Principles

- A pool of high quality unencumbered assets is maintained allowing to meet all contractual and regulatory obligations under both normal and stressed market conditions.
- Fund Transfer Pricing: the Bank operates within a fund transfer pricing system designed to allocate to businesses all funding costs in a way that incentivizes their efficient use of funding.
- The Bank operates within Credit Suisse centralized funding model:
  - Excess liquidity is up streamed to Credit Suisse.
  - If required emergency funding to be provided within Credit Suisse global liquidity management framework.
- Foreign exchange & money market dealing is taking place with Credit Suisse entities only.
- Credit Suisse internal liquidity barometer model is used to manage liquidity to internal targets and as basis model to stress test liquidity.

10.2.1 Funding Strategy

Customer deposits represent the primary source of funding. The Bank's business model generates an excess of liquidity from deposits which is either up-streamed to Credit Suisse in line with Credit Suisse centralized funding model or placed with the BCL. Customer deposits resulting from the Wealth Management activities or from Depositary Bank function are the only external sources of funding. The Bank is not relying on other external funding such as issuance of debt securities.
Funding concentration risk is the over-reliance on a type of instrument or product, tenor, currency, counterparty and/or financial market to raise funding and meet the bank's obligations. It is the Bank's funding strategy to ensure that it has access to a diversified range of funding sources by customer base, financial market and geography to cover short-term and medium to long term requirements, without any significant reliance on a particular funding source, counterparty, currency, tenor or product.
CSL does not face any major concentration risk with regards to the source of customer deposits: the largest client deposit represents 6.8% and the ten largest client deposits represent 25.2% of the total deposits amount.

10.2.2 Liquidity risk mitigation techniques

Credit Suisse Luxembourg's risk management framework is organized within, the "three lines of defence" approach to ensure to ensure a clear segregation between the first (Businesses lines and Treasury), the second (CRO and Liquidity Risk Management) and Internal Audit as third line of defence.

10.2.3 Stress testing

Barometer 2.0 (B2.0) is Credit Suisse' internal liquidity risk model. B2.0 is a global model which is consistently applied on the Credit Suisse network (including CSL). It incorporates various stress scenarios across different time horizons. The two main scenarios are a 30 day severe combined stress event (B2.0 30d) and a 365 day less severe scenario (B2.0 365d). Key assumptions of the Barometer 2.0 stress testing framework incorporates a number of factors including, but not limited to:

- Conservative assessments based on historic experience;
- Subject matter expert review;
- Peer analysis/experience.

Both Barometer 2.0, 30d and 365d metrics, are calculated on a weekly basis by the Liquidity Measurement and Reporting ("LMR"). LMR has an overarching control framework which applies to the production of the Barometer 2.0 reports. The controls focus on the completeness, the accuracy and timeliness of the data used in production.

The Barometer 2.0 relies on a centralized and reconciled data source that feeds production of both internal Management Inventory ("MI") and regulatory reporting. Accurate and complete data that is reconciled against books and records are stored in an automated and controlled environment.

Barometer 2.0 uses the cash flow model based on contractual and behavioural assumptions for up to 365 days to perform stress testing analysis and reporting across long term structural scenarios. The rationale supporting the Barometer 2.0 shares similarities with the forthcoming Liquidity Coverage Ratio ("LCR") as it addresses acute short-term liquidity issues.

Appropriate risk constraints have been defined for the two Barometer metrics, in accordance with the global entity risk control framework, the standardized and dynamic methodology for cascading Barometer 2.0 risk appetite into proportional risk controls for individual entities.

The approved 30d and 365d tolerances are reviewed on a yearly basis.

10.2.4 Contingency funding plan

Although the Bank is embedded in Credit Suisse Group's liquidity Contingency Funding Plan ("CFP"), CSL considers contingency planning within recovery planning to be an integral part of comprehensively managing stressful situations that may occur at any point throughout the crisis continuum, with the ultimate goal of greatly reducing the possibility that the Bank may need to be resolved. The crisis management framework ranges from the ordinary course of business all the way to failure.

In the ordinary course of business, the Bank follows its existing risk management, capital management and liquidity management processes as laid out in its overall Risk Management Framework.

The crisis management framework is designed to apply to conditions on the continuum between the ordinary course of business, i.e. business as usual ("BAU"), and failure. The crisis continuum outlines specific action steps that the Bank would take following the activation of each crisis level, including implementing enhanced reporting and monitoring processes, escalating key issues along defined escalation paths, following specific internal and external communication plans, and assessing and implementing recovery options as appropriate.

The Bank has defined three stress levels, beyond business-as-usual, to classify stress conditions of increasing severity between the ordinary course and failure, and to organize the responses to such conditions.

- Target operating range or business as usual: in this phase, the business is operating within normal parameters and there is no stress indicated by regular monitoring processes and frameworks. The Authorized Management will receive regular information but no further action is required.
- Stress: This phase occurs when any event pushes the Bank from business as usual into a stressed situation, financially or operationally, such that it would threaten the continuity of critical functions.
- Recovery zone: The recovery phase is entered when a situation has occurred that leads the Bank significantly beyond its risk capacity level, and if no significant actions (recovery options) were implemented in this phase, the situation could lead the firm into Resolution. In the recovery zone, recovery options are considered to address severe stresses.
- Resolution: The resolution phase occurs when the Bank has passed the point of non-viability. In this phase, the Resolution Authority takes control of the firm and enacts the resolution strategy, with existing business supporting the efficient legal entity resolution activities after failure, as directed.
- The Bank ensures that it is able to respond and successfully manages varying degrees of liquidity and funding stresses with its own Contingency Funding Process. Besides regulatory and economic liquidity metrics, the Bank counts on the expert judgement of its subject matter experts and senior management who retain at all times the authority and responsibility to ensure that any required remedial actions are promptly taken.

A liquidity stress event can be triggered by a number of factors including issues specific to the Bank, market-wide disruption, or a non-financial event that could potentially impact the ability of the Bank to conduct business.

CSL outlines in his Recovery Plan (“RP”) a comprehensive set of specific actions that may be taken in a stress event, depending on nature and depth of the crisis, which will facilitate core business line ability to operate even in adverse conditions.
An automatic activation of the Contingency Funding Plan can be triggered by any metric or limit in place. This applies to Barometer 2.0 tolerance levels which are included in the weekly liquidity dashboard. This dashboard allows to monitor a deterioration of the liquidity situation and to identify potential risk at an early stage and to initiate corrective action if appropriate. Treasury closely monitors the in- and outflows as well as the assets and liabilities which could have a direct impact on the Liquidity Coverage Ratio.

10.3 Liquidity Coverage Ratio

A failure to adequately monitor and control liquidity risk led a number of financial firms into difficulty and was a major cause of the 2007/2008 Financial Crisis. To improve internationally active banks’ short-term resilience to liquidity shocks, the Basel Committee on Banking Supervision (“BCBS”) introduced the LCR as part of the Basel III post-crisis reforms.

The LCR is designed to ensure that banks hold a sufficient reserve of high-quality liquid assets (“HQLA”) to allow them to survive a period of significant liquidity stress lasting 30 calendar days. The supervisory scenario capturing the period of stress combines elements of bank-specific liquidity and market-wide stress and includes many of the shocks experienced between 2007 and 2012. The 30-calendar-day stress period is the minimum period deemed necessary for corrective action to be taken by the bank’s management or by supervisors.

The LCR requires institutions to hold a stock of HQLA at least as large as the expected total net cash outflows over the stress period, as summarised in the following formula:

$$\text{LCR} = \frac{\text{Stock of HQLA}}{\text{Net cash outflows over the next 30 calendar day}} \geq 100\%$$

In this context, the Bank computes and reports its LCR to CSSF and BCL on a monthly basis. The table below shows the average LCR calculated over a period of 3 months (October, November, December) which amounts to 234.41%. As per this Q4 2019 average, a cap of 75% of the total expected outflows is set for the amount of inflows leading to CHF 1.023.719.588 of net cash outflows.

LCR (average) as of 31/12/2019 (amounts in CHF)		Total unweighted value (average)	Total weighted value (average)
High-quality liquid assets			
1	Total HQLA		2.399.682.664
Cash outflows			
2	**Retail deposits and deposits from small business customers, of which:**	**1.162.609.167**	**232.521.833**
3	Stable deposits	–	–
4	Less stable deposits	1.162.609.167	232.521.833
5	**Unsecured wholesale funding, of which:**	**6.529.480.037**	**3.719.077.661**
6	Operational deposits (all counterparties) and deposits in networks of cooperative banks	3.723.418.043	1.082.307.678
7	Non-operational deposits (all counterparties)	2.806.061.994	2.636.769.983
8	Unsecured debt	–	–
9	**Secured wholesale funding**		**–**
10	**Additional requirements, of which:**	**232.203.333**	**98.957.534**
11	Outflows related to derivative exposures and other collateral requirements	23.652.797	23.652.797
12	Outflows related to loss of funding on debt products	–	–
13	Credit and liquidity facilities	208.550.536	75.304.738
14	**Other contractual funding obligations**	44.321.323	44.321.323
15	**Other contingent funding obligations**	980.000.030	–
16	**Total cash outflows**		**4.094.878.351**
Cash inflows			
17	**Secured lending (eg reverse repos)**	**638.265.044**	**66.781.499**
18	**Inflows from fully performing exposures**	**4.847.995.493**	**3.472.105.984**
19	Other cash inflows	–	–
20	**Total cash inflows**	5.486.260.537	3.538.887.483
LCR Ratio			
21	**Total HQLA**		2.399.682.664
22	**Total net cash outflows**		1.023.719.588
23	**Liquidity Coverage Ratio (%)**		**234.41%**

10.4 Net stable funding ratio

In addition to the LCR, the Basel Committee introduced the net stable funding ratio (“NSFR”) that aims to promote resilience over a longer time horizon by creating incentives for banks to fund their activities with more stable sources of funding on an ongoing basis.

Private incentives to limit excessive reliance on unstable funding of core (often illiquid) assets are weak. In good times, banks may expand their balance sheets quickly by relying on relatively cheap and abundant short-term wholesale funding. The NSFR aims to limit this and in general seeks to ensure that banks maintain a stable funding structure. One goal of the BCBS in developing the NSFR has been to support financial stability by helping to ensure that funding shocks do not significantly increase the probability of distress for individual banks, a potential source of systemic risk.

The NSFR is expressed as a ratio that must equal or exceed 100%. The ratio relates the bank's available stable funding to its required stable funding, as summarised in the following formula:

$$\text{NSFR} = \frac{\text{Total available stable funding ("ASF")}}{\text{Total required stable funding ("RSF")}} \geq 100\%$$

To determine total ASF and RSF amounts, factors reflecting supervisory assumptions are assigned to the bank's sources of funding and to its exposures, with these factors reflecting the liquidity characteristics of each category of instruments.

In this context, the Bank computes and reports its NSFR to CSSF on a quarterly basis. The table below shows that the NSFR as December 31, 2019 amounts to 157.58%.

	NSFR as of 31/12/2019 (amounts in CHF)	Unweighted value by residual maturity				Weighted value
		No maturity	< 6 months	6 months to < 1 year	≥ 1 year	
	Available stable funding (ASF) item					
1	**Capital:**	–	–	–	–	–
2	Regulatory capital	–	–	–	403.612.791	403.612.791
3	Other capital instruments	–	–	–	–	–
4	**Retail deposits and deposits from small business customers:**	–	–	–	–	–
5	Stable deposits	–	–	–	–	–
6	Less stable deposits	–	342.087.014	3.766.936	–	311.268.555
7	**Wholesale funding:**	–	–	–	–	–
8	Operational deposits	–	3.726.815.469	105.714.112	184.187.025	2.100.451.815
9	Other wholesale funding	–	3.718.132.870	2.935.847	–	526.424.487
10	**Liabilities with matching interdependent assets**	–	–	–	–	–
11	**Other liabilities:**	–	–	–	–	–
12	NSFR derivative liabilities		–	–	–	
13	All other liabilities and equity not included in the above categories	–	34.888.976	–	34.472.998	34.472.998
14	**Total ASF**					3.376.230.647
	Required stable funding (RSF) item					
15	**Total NSFR high-quality liquid assets (HQLA)**					–
16	**Deposits held at other financial institutions for operational purposes**	–	–	–	–	–
17	**Performing loans and securities:**	–	–	–	–	–
18	Performing loans to financial institutions secured by Level 1 HQLA	–	–	–	–	–
19	Performing loans to financial institutions secured by non-Level 1 HQLA and unsecured performing loans to financial institutions	–	4.691.047.547	195.749.012	152.792.406	1.006.865.364
20	Performing loans to non-financial corporate clients, loans to retail and small business customers, and loans to sovereigns, central banks and PSEs, of which:	–	1.069.427.662	114.807.987	163.086.934	732.177.484
21	With a risk weight of less than or equal to 35% under the Basel II standardised approach for credit risk	–	–	–	–	–

NSFR as of 31/12/2019 (amounts in CHF)	Unweighted value by residual maturity				Weighted value
	No maturity	< 6 months	6 months to < 1 year	≥ 1 year	
Required stable funding (RSF) item					
22 Performing residential mortgages, of which:	–	72.655.024	3.301.806	225.942.168	184.840.824
23 With a risk weight of less than or equal to 35% under the Basel II standardised approach for credit risk	–	72.655.024	3.301.806	225.942.168	184.840.824
24 Securities that are not in default and do not qualify as HQLA, including exchange-traded equities	–	57.008	–	–	28.504
25 Assets with matching interdependent liabilities	–	–	–	–	–
26 Other assets:	–	–	–	–	–
27 Physical traded commodities, including gold	–				–
28 Assets posted as initial margin for derivative contracts and contributions to default funds of central counterparties		–	–	–	–
29 NSFR derivative assets		–	–	73.854.876	73.854.876
30 NSFR derivative liabilities before deduction of variation margin posted		–	–	–	–
31 All other assets not included in the above categories	–	112.854.937	–	15.276.603	128.131.539
32 Off-balance sheet items		–	–	–	11.940.399
33 Total RSF					2.142.599.627
Total ASF					3.376.230.647
Total RSF					2.142.599.627
Net Stable Funding Ratio (%)					**157.58%**

10.5 Unencumbered assets

An encumbered asset is an asset pledged or subject to any form of arrangement to secure, collateralize or credit-enhance any on-balance sheet or off-balance sheet transaction from which it cannot be freely withdrawn.

The table below provides a decomposition of the assets of CSL between encumbered and non-encumbered assets. Sources of encumbrance are minimum central bank reserves held at central bank and reverse repurchase agreements.

Sources of encumbrance as of 31/12/2019 (in CHF)		Carrying amount of encumbered assets			Fair value of encumbered assets		Carrying amount of non-encumbered assets			Fair value of non-encumbered assets	
			of which: issued by other entities of the group	of which: central bank's eligible		of which: central bank's eligible		of which: issued by other entities of the group	of which: central bank's eligible		of which: central bank's eligible
		010	020	030	040	050	060	070	080	090	100
010	**Assets of the reporting institution**	156.350.347	58.014.332	71.771.629			8.432.897.989	2.205.841.537	1.975.338.335		
020	Loans on demand	71.771.629	–	71.771.629			2.360.326.759	349.512.751	1.975.338.335		
030	Equity instruments	–	–	–	–	–	57.008	57.008	–	57.008	–
040	Debt securities	–	–	–	–	–	–	–	–	–	–
050	of which: covered bonds	–	–	–	–	–	–	–	–	–	–
060	of which: asset-backed securities	–	–	–	–	–	–	–	–	–	–
070	of which: issued by general governments	–	–	–	–	–	–		–	–	–
080	of which: issued by financial corporations	–	–	–	–	–	–	–	–	–	–
090	of which: issued by non-financial corporations	–	–	–	–	–	–	–	–	–	–
100	Loans and advances other than loans on demand	84.578.718	58.014.332	–			5.937.238.286	1.856.271.778	–		
110	of which: mortgage loans	–	–	–			541.127.163	–	–		
120	Other assets	–	–	–			135.275.936	–	–		

11. Leverage ratio

11.1 Overview

An underlying cause of the 2007/2008 financial crisis was the build-up of excessive on- and off-balance sheet leverage in the banking system. In many cases, banks built up excessive leverage while maintaining seemingly strong risk-based capital ratios. The ensuing deleveraging process at the height of the crisis created a vicious circle of losses and reduced availability of credit in the real economy.

The BCBS introduced a leverage ratio in Basel III to reduce the risk of such periods of deleveraging in the future and the damage they inflict on the broader financial system and economy. The leverage ratio is also intended to reinforce the risk-based capital requirements with a simple, non-risk-based “backstop”.

The framework is designed to capture leverage associated with both on- and off-balance sheet exposures. It also aims to make use of accounting measures to the greatest extent possible, while at the same time addressing concerns that (i) different accounting frameworks across jurisdictions raise level playing field issues and (ii) a framework based exclusively on accounting measures may not capture all risks.

The leverage ratio is defined as the capital measure divided by the exposure measure, expressed as a percentage:

$$\text{Leverage ratio} = \frac{\text{Capital measure}}{\text{Total exposures}}$$

The provisions to compute the leverage ratio are presented as part of Part Seven of the CRR. Currently, there is no minimum regulatory requirement. However, the BCBS recommends that the leverage ratio should be higher than 3%.

In this context, the Bank computes and reports its leverage ratio to CSSF on a quarterly basis according to the provisions of Part Seven of the CRR.

11.2 Capital measure

According to Article 429(3) of the CRR, the capital measure should be the Tier 1 capital. As of December 31, 2019, the Tier 1 capital of CSL amounts to CHF 371.029.181. It correspond to CET 1 capital as the Bank does not have any additional Tier 1 instruments.

11.3 Exposure measure

The exposure measure includes both on-balance sheet exposures and off-balance sheet (“OBS”) items. On-balance sheet exposures are generally included at their accounting value.

OBS items arise from such transactions as credit and liquidity commitments, guarantees and standby letters of credit. The amount that is included in the exposure measure is determined by multiplying the notional amount of an OBS item by the relevant credit conversion factor from the Basel II standardised approach for credit risk.

For derivative transactions, the exposure measure amount is computed according to the provisions of Article 274 of the CRR. The exposure amount is equal to the sum of the replacement cost (the mark-to-market value of contracts with positive value) and an add-on representing the transaction's potential future exposure.

The table below provides an overview of the leverage ratio exposure measure.

Leverage ratio exposure		**As of 31/12/2019 (in CHF)**
1	Total consolidated assets as per published financial statements	8.572.403.860
2	Adjustment for investments in banking, financial, insurance or commercial entities that are consolidated for accounting purposes but outside the scope of regulatory consolidation	–
3	Adjustment for fiduciary assets recognised on the balance sheet pursuant to the operative accounting framework but excluded from the leverage ratio exposure measure	–
4	Adjustments for derivative financial instruments	73.058.867
5	Adjustment for securities financing transactions (i.e. repos and similar secured lending)	–
6	Adjustment for off-balance sheet items (i.e. conversion to credit equivalent amounts of off-balance sheet exposures)	238.807.976
7	Other adjustments	(15.008.993)
8	**Leverage ratio exposure measure**	**8.869.261.710**

11.4 Leverage ratio computation

As of December 31, 2019, the leverage ratio amounts to 4.18%. This is above the limit of 3% recommended by the BCBS. The table below provides an overview of the different components of the ratio as well as the evolution between 2018 and 2019.

Leverage ratio computation		**31/12/2019 (in CHF)**	**31/12/2018 (in CHF)**
On-balance sheet exposures			
1	On-balance sheet exposures (excluding derivatives and securities financing transactions (SFTs), but including collateral)	7.954.059.530	8.153.964.500
2	(Asset amounts deducted in determining Basel III Tier 1 capital)	(4.760.636)	(3.421.942)
3	**Total on-balance sheet exposures**	**7.949.298.894**	**8.150.542.558**
Derivative exposures			
4	Replacement cost associated with all derivatives transactions (where applicable net of eligible cash variation margin and/or with bilateral netting)	14.313.597	36.875.422
5	Add-on amounts for potential future exposure (PFE) associated with all derivatives transactions	58.745.270	82.822.145
6	Gross-up for derivatives collateral provided where deducted from the balance sheet assets pursuant to the operative accounting framework	–	–
7	(Deductions of receivables assets for cash variation margin provided in derivatives transactions)	–	–
8	(Exempted central counterparty, or CCP, leg of client-cleared trade exposures)	–	–
9	Adjusted effective notional amount of written credit derivatives	–	–
10	(Adjusted effective notional offsets and add-on deductions for written credit derivatives)	–	–
11	**Total derivative exposures**	**73.058.867**	**119.697.567**

Leverage ratio computation	31/12/2019 (in CHF)	31/12/2018 (in CHF)
Securities financing transaction exposures		
12 Gross SFT assets (with no recognition of netting), after adjusting for sale accounting transactions	608.095.973	725.283.635
13 (Netted amounts of cash payables and cash receivables of gross SFT assets)	-	-
14 Counterparty credit risk exposure for SFT assets	-	-
15 Agent transaction exposures	-	-
16 Total securities financing transaction exposures	**608.095.973**	**725.283.635**
Other off-balance sheet exposures		
17 Off-balance sheet exposure at gross notional amount	238.807.976	445.157.943
18 (Adjustments for conversion to credit equivalent amounts)	-	-
19 Off-balance sheet items	**238.807.976**	**445.157.943**
Capital and total exposures		
20 Tier 1 capital	371.029.181	372.320.801
21 Total exposures	8.869.261.710	9.440.681.703
Leverage ratio		
22 Basel III leverage ratio	**4.18%**	**3.94%**

12. Remuneration policy

12.1 Overview

Disclosures on remuneration policy are made in accordance with Article 450 of the CRR, the BCBS Pillar III disclosure requirements standards and the EBA's Guidelines on sound remuneration policies under Articles 74(3) and 75(2) of Directive 2013/36/EU and on disclosures under Article 450 of Regulation (EU) No 575/2013. They are made in respect of the remuneration period ending December 31, 2019 with respect to Credit Suisse (Luxembourg) S.A. and including its branches.

The Group is committed to responsible compensation practices. The need to reward Credit Suisse (Luxembourg) S.A.'s employees fairly and competitively based on performance is balanced with the requirement to do so within the context of principled behaviour and actions, particularly in the areas of risk, compliance, control, conduct and ethics. Compensation contributes to the achievement of the Group's objectives in a way that does not encourage excessive risk-taking or the violation of applicable laws, guidelines, and regulations, taking into account the capital position and economic performance of the Group over the long term.

Credit Suisse (Luxembourg) S.A. applies the Credit Suisse Compensation Policy, which applies to all employees and compensation plans of the Group. The key objectives of Credit Suisse are to maintain Compensation Policy that:

- Fosters a performance culture based on merit that differentiates and rewards excellent performance, both in the short and long term, and recognizes the Group's values;
- Enables CSG to attract and retain employees, and motivate them to achieve results with integrity and fairness;
- Balances the mix of fixed compensation and variable compensation to appropriately reflect the value and responsibility of the role performed, and to influence appropriate behaviours and actions;
- Promotes, effective risk management practices that are aligned with the Group's compliance and control culture;
- Creates a culture that encourages high conduct and ethics standards through a system of applying both malus and rewards;
- Encourages teamwork and collaboration across the Group;
- Achieves a balanced distribution of profits between employees and shareholders over the long term, subject to Group performance and market conditions;
- Takes into account the long-term performance of the Group, in order to create sustainable value for the Group's shareholders; and
- Is approved by the Board of Directors and includes requirements set out in the Group Compensation Committee Charter, which is regularly monitored to ensure adherence to the specified terms.

Additionally, the Bank implemented a local appendix to CSG Compensation Policy in order to define the local regulation applicability as well and Material Risk Takers related treatment as per the Luxembourg Regulatory framework. The Luxembourg law of April 5, 1993 on the financial sector, as amended by the law of July 23, 2015 transposing Directive 2013/36/EU of the European Parliament and of the Council of June 26, 2013 (CRD IV) imposes additional obligations relating to remuneration for certain individuals defined as Material Risk Takers ("MRTs").

Furthermore, CSSF circular 11/505 sets out details relating to the application of the principle of proportionality when establishing and applying remuneration policies that are consistent with sound and effective risk management.

On June 16, 2017 the CSSF additionally issued circular 17/658 transposing the EBA guidelines on sound remuneration policies with effective date January 1, 2017. The circular clarifies the CSSF's expectation regarding implementation towards credit institutions domiciled in Luxembourg and highlights that circular provisions 11/505 remain applicable.

This appendix relates to Material Risk Takers identified for CSL and its branches.

This local appendix is reviewed and submitted to the Bank's Remuneration Committee for review and to the Board of Directors for annual approval. This document is also shared on an annual basis with the Luxembourg Regulator.

12.2 Compensation governance

The Group Compensation Committee ("GCC") reviews proposals regarding compensation of the Group, compensation payable to members of Board of Directors and Executive Board, the Head of Internal Audit and certain other members of senior management, and makes recommendations to the Group Board of Directors for approval, assisted by an independent external consultant.

Following Group principles, Credit Suisse (Luxembourg) S.A. has a policy of a clear separation of responsibilities between the recommendation, review and approval of compensation plans. The Board of Directors of the Bank is responsible for the local implementation of the Group Compensation Policy as well as related rules and regulations, including overall responsibility for the approval of compensation plans and expenses of CSL.

Credit Suisse (Luxembourg) S.A. has a Remuneration Committee, the purpose and key objectives of which are to advise the BoD in respect of matters relating to compensation for the employees of the Bank. The Remuneration Committee is based on the organisational guidelines and regulations ("OGR") and on the local requirements (e.g. CSSF circular 12/552). The Remuneration Committee is responsible for ensuring on behalf of the BoD that CSL has implemented effective remuneration policies and practices, which are in line with both, the Group Compensation Policy and the applicable remuneration legislation.

The Remuneration Committee has a specific duty to inform and/or make recommendations to the Bank's BoD on any of the following matters for which the BoD is responsible:

- Compliance with the Group Compensation Policy and Implementation Standards ("CPIS") and Luxembourg Appendix with Luxembourg compensation regulation;
- Ensure correspondence and filing of requested documents with the local regulator;
- Identification of Credit Suisse (Luxembourg) S.A. Material Risk Takers/EU regulated employees including Material Risk Taker Exclusion process;
- Determination of impact on variable compensation for those employees with regards to performance and risk compliance;
- Approval of individual compensation, with particular focus on members of the Bank's Authorised Management, Material Risk Takers and EU regulated employees;
- Informing on local disciplinary cases and recommending the impact on the variable compensation of concerned employees to the BoD taking into account the Group Disciplinary Review Committee's requirements.

Internal Audit, as part of standard procedures, conducts regular reviews of compensation practices to ensure that Compensation Policy and Implementation Standards, external regulations and guidelines are adhered to, and that processes for achieving and maintaining balanced incentive compensation arrangements are consistently followed.

12.3 Compensation structure and instruments

Following the approach of the Group, Credit Suisse (Luxembourg) S.A. takes a total compensation approach, based on two principle components: fixed compensation and variable compensation. The mix of fixed and variable compensation is designed to ensure adequate consideration of risk and conduct in compensation decisions, and varies according to the employee's position and role within Credit Suisse (Luxembourg) S.A.. For example, the targeted compensation mix of individuals working in control functions is designed to have a higher proportion in fixed compensation, and a smaller proportion in variable compensation. While, those on the revenue-generating side will typically have a higher proportion in variable compensation.

12.3.1 Fixed compensation

Fixed compensation, which is most commonly paid in the form of base salary, is based on the skills, qualifications and relevant experience of the individual, as well as the responsibilities required by the role and external market factors. Fixed compensation may include role-based allowances, determined based on the role and organisational responsibilities of the individual.

Additionally, in accordance with the Capital Requirements Directive IV ("CRD IV"), the variable component for MRTs compensation is capped at 200% of the fixed component, as approved by the shareholders of CSL on May 8, 2014 and is subject to periodic review and confirmation by the GCC.

The Bank reviews on an annual basis and submits to the regulator any case of Material Risk Takers where the fixed to variable compensation ratio exceeds 100% and confirms the respect of the 200% cap. Two annual notification Forms (A and B) relating to the procedure to increase the ratio of fixed to variable remuneration from 100% to 200% according to Article 38-6 (g) (ii) of the Law of April 5, 1993 as amended and Article 94(1) (g) (ii) of Directive 2013/36/EU (CRD IV) for CSL including its branches are provided to the local regulator on an annual basis. These notifications are sent to the regulator together with the BoD and Shareholders annual recommendation to allow the increase of the maximum amount of variable compensation components for eligible employees, including MRTs depending on their performance (an extraordinary Shareholder meeting was held in this respect on June 21, 2019).

12.3.2 Variable compensation

The level of variable compensation granted is entirely at the discretion of the Group, and may be zero in cases of substandard performance or conduct or other reasons. The Group makes decisions on variable compensation based on absolute and relative performance of Credit Suisse (Luxembourg) S.A., as well as achievement of pre-agreed individual performance objectives of employees, market compensation levels, and a variety of other factors.

In exceptional and justified circumstances, Credit Suisse (Luxembourg) S.A. may award guaranteed variable compensation, granted as part of a contractual obligation. Guarantees that are subject to appropriate level of approvals, are limited for one year only and are awarded to attract new employees into the firm where they have no established performance or reputation.

Above a certain threshold, a portion of variable compensation is subject to mandatory deferral to reflect the nature of the Group's business, its risk profile, and the desire to have compensation plans that are based on sustainable performance criteria. Generally, the higher an individual's total compensation, the higher the percentage that is deferred. Deferral percentages are regularly reviewed by the GCC, and are internally communicated. Deferral percentages also take into consideration market practice and applicable regulations, and may differ in certain markets. For 2019, the maximum deferral rate was set at 85%. Deferred compensation elements are typically subject to a vesting period of three years (rateably).

Longer vesting periods may be decided upon by the CC based on a number of factors, including regulatory requirements.

The Group's primary long-term incentive compensation plan is the CSG Master Share Plan (the "Plan"). Deferred compensation instruments are designed to align the interests of employees with the interests of shareholders. The Group seeks to achieve this by providing deferred instruments, the value of which are either tied to the share price performance of the Group, the pre-tax profit of the Divisions, or the Return on Equity ("ROE") of the Group.

12.3.3 Material Risk Takers

The MRTs of the Bank consist of senior individuals identified in accordance with the Regulatory Technical Standards 604/2014 ("RTS") criteria as applied to CSL.

The MRT population is subject to scrutinised compensation structuring rules. Variable compensation awarded to MRTs is subject to at least 40% or 60% deferral. Generally, MRTs' variable compensation is subject to a deferral period of three years and of increased five years for senior managers. Additionally, at least 50% of both, deferred and non-deferred variable compensation awarded to MRTs, is awarded in shares or share-linked instruments under the Plan that are subject to an appropriate retention period following vesting during which they cannot be sold or transferred. Deferred instruments granted to MRTs are not entitled to dividend or interest payments.

In certain circumstances, severance payments made to MRTs are also treated as variable compensation, and follow similar structuring rules as described above.

12.4 Determination of variable compensation pools

In determining the global variable compensation pools, the GCC aims to balance the distribution of the Group's profits between shareholders and employees. The starting point of the bonus pool development is the Group's financial performance in terms of economic contribution, measured as adjusted income before taxes excluding variable incentive compensation expenses, after deducting a capital usage charge. The methodology to determine the Group and divisional pools also takes into account key performance metrics and certain non-financial criteria, including risk and control, compliance and ethical considerations and relative performance compared with peers, as well as the market and regulatory environment and any extraordinary events, such as, but not limited to, company reorganizations, major legacy settlements or any other exceptional circumstances. The CC can apply discretion to make adjustments (including negative adjustments) to the variable compensation pools.

The total amount of the pool for the corporate functions is not linked to the performance of the particular divisions that employees of the corporate functions support, but takes into account the Group-wide financial performance, measured in the form of Group economic contribution and qualitative measures. Therefore, employees working in the corporate functions, including those performing control functions, are remunerated independently from the performance of the businesses they oversee and support. As with the business divisions, risk, control, compliance and ethical considerations and relative performance compared to peers, as well as the market and regulatory environment, are taken into account.

Once the pools have been set at the Group and divisional levels, each business division allocates its pool to its business areas, based on the same or similar factors as used to determine the divisional pool. Capital usage and risk are factored into the pools as they are allocated within business areas. The corporate functions pool is allocated to the various functions within the corporate functions based on factors such as the achievement of performance objectives, compliance with policies and regulations, and market conditions.

12.5 Determination of variable compensation awards

The allocation of variable compensation to individuals is primarily based on line manager assessment of the performance and conduct of each individual, subject to the constraints of the pool size. The Group adopts a performance culture that places a strong emphasis on disciplined risk management, ethics and compliance-centred behaviour.

To support this process, the Group uses a comprehensive performance management system based on two performance ratings: contribution and behaviour. Contribution ratings are typically based on objective criteria, such as achieving budget targets, increasing market share or successful completion of a project - though they are not limited to financial criteria. Behaviour standards covering conduct, ethics, risk and control are defined by six key standards (client focus; accountability, including ethics, risk, control and compliance; partner with clients, colleagues and other external parties; meritocracy; stakeholder management; and transparency) that support the Group's branding strategy and overall business vision.

Depending on role, many of our employees will be subject to additional performance ratings, including Risk, Compliance and Leadership, meant to ensure that the individual has multilateral scrutiny on various aspects of both the HOW and the WHY of what they do.

Employees are expected to display the Group's ethical values and professional standards in all business activities and, employees' failure to adhere can result in either a zero or reduced variable compensation, and in certain cases, disciplinary action, up to and including dismissal.

MRTs are subject to a heightened level of scrutiny over the alignment of their compensation with performance, conduct and risk considerations. MRTs and their managers are required to define role specific risk objectives and to incorporate risk considerations, both realised and potential, in their performance evaluations when setting variable compensation.

12.6 Malus and clawback provisions

All deferred compensation awards granted contain malus provisions that enable the Group to reduce or cancel the awards prior to settlement if the participant engages in certain detrimental conduct. Additionally, all variable compensation awards granted to the Bank's MRTs are subject to clawback provisions for a minimum the sum of vesting period plus any blocking/retention or deferral period specified in the Award Certificate.

12.7 Further information

Additional information can be found within the Group Compensation Policy, and the Group/ Credit Suisse (Luxembourg) S.A. Annual Reports.

12.8 Remuneration awarded in 2019

Total staff expenses for the year 2019 amount to CHF 71.875.309. The table below provides a summary of fixed and variable remunerations granted to Senior Management and Other MRTs.

Remuneration for 2019 (amounts in CHF)		Senior Management	Other MRTs
Fixed remuneration (2)	**Number of employees (1)**	**19**	**10**
	Total fixed remuneration	**4.958.458**	**1.972.206**
	Of which: cash-based	4.958.458	1.972.206
	Of which: deferred	–	–
	Of which: shares or other share-linked instruments	–	–
	Of which: deferred	–	–
	Of which: other forms	–	–
	Of which: deferred	–	–
Variable remuneration (3)	**Total variable remuneration**	**3.502.191**	**723.766**
	Of which: cash-based	1.233.158	388.363
	Of which: deferred	405.990	54.090
	Of which: shares or other share-linked instruments	2.269.033	335.403
	Of which: deferred	1.678.258	216.359
	Of which: other forms	–	–
	Of which: deferred	–	–
Total remuneration		**8.460.649**	**2.695.972**

(1) Excludes further four supervisory board members who sit on various management committees and hence are identified as MRTs. These individuals are at the same time employees of Credit Suisse Group Switzerland and are not compensated for their BoD role for CSL.
(2) Fixed remuneration includes base salaries, total compensation relevant allowances as well as pension contributions and benefits paid in 2019.
(3) Variable remuneration constitutes discretionary variable incentive awards granted to MRTs relating to the 2019 performance year as communicated via 2019 compensation statements.

The table below provides an overview of special payments (i.e. guaranteed bonuses, sign-on rewards and severance payments) granted to Senior Management and other MRTs in 2019.

	Guaranteed bonuses		Sign-on awards		Severance payments	
Special payments in 2019	**Number of employees**	**Total amount**	**Number of employees**	**Total amount**	**Number of employees**	**Total amount CHF**
Senior Management & Other Material Risk Takers	0	0	0	0	2	CHF 521.018

The table below provides quantitative information on deferred and retained remuneration.

Deferred and retained remuneration in 2019 (amounts in CHF)	Total amount of outstanding deferred remuneration	Of which: total amount of outstanding deferred and retained remuneration exposed to ex post explicit and/or implicit adjustment (1)	Total amount of amendment during the year due to ex post explicit adjustments (2)	Total amount of amendment during the year due to ex post implicit adjustments (3)	Total amount of deferred remuneration paid out in the financial year
Senior Management	**4.559.350**	**4.559.350**	–	**641.515**	**892.719**
Cash	72.395	72.395	–	–	–
Shares	3.327.871	3.327.871	–	585.329	773.872
Cash-linked instruments	1.159.084	1.159.084	–	56.186	118.847
Other	–	–	–	–	–
Other Material Risk-Takers	**661.739**	**661.739**	–	**97.611**	**156.902**
Cash	42.958	42.958	–	–	42.958
Shares	513.401	513.401	–	90.301	95.698
Cash-linked instruments	105.380	105.380	–	7.310	18.246
Other	–	–	–	–	–
Total	**5.221.089**	**5.221.089**	–	**739.126**	**1.049.621**

(1) All outstanding deferred compensation can be exposed to risk adjustments
(2) Part of the deferred and retained remuneration that is subject to direct adjustment clauses (e.g. subject to malus, clawbacks or similar reversal or downward revaluations of award
(3) Part of the deferred and retained remuneration that is subject to adjustment clauses that could change the remuneration, due to the fact that they are linked to the performance of other indicators (e.g. fluctuation in the value of shares performance or performance units)

Notes:
Dividend Equivalents are not included
Outstanding deferred compensation includes Restricted Stock Plan which vests upon grant is however deferred due to blocking/retention requirement
Outstanding remuneration in cash represents special deferred cash awards that may not be deferred as such, are however subject to deferred payment due to the terms and conditions of the award agreement (e.g. retention cash award, cash buyouts)

12.9 Role of the Board of Directors

The BoD is in charge of the application and the annual review of the CSG Compensation Policy and Implementation Standards to the employees of the Bank, as well as of the Luxembourg Appendix for CSL. In this regard, the BoD has implemented and mandated a Remuneration Committee to govern the local compensation process. This committee is composed of at least two Non-Executive Directors (of which one is the chairman), the Country CEO and the Head of Human Resources.

Glossary

Term	Definition
A-IRB	Advanced Internal Ratings-Based
ALCO	Asset and Liability Committee
AM	Authorized Management
ARC	Audit & Risk Committee
ASF	Total Available Stable Funding
BAU	Business As Usual
BCBS	Basel Committee on Banking Supervision
BCL	Banque Centrale du Luxembourg
BIA	Basic Indicator Approach
BoD	Board of Directors
BRRD	Bank Recovery and Resolution Directive
CARMC	Capital Allocation & Risk Management Committee
CC	Credit Committee
CCF	Credit Conversion Factor
CCO	Chief Compliance Officer
CCR	Counterparty credit risk
CCRMTM	Counterparty Credit Risk Mark-to-market Method
CCyB	Countercyclical Capital Buffer
CDE	Critical Data Elements
CEBS	Committee of European Banking Supervisors
CEO	Chief Executive Officer
CET 1	Common Equity Tier 1
CFO	Chief Financial Officer
CFP	Contingency Funding Plan
CH	Switzerland
CHF	Swiss franc
COO	Chief Operating Officer
Corep	Common reporting
CPIS	Compensation Policy and Implementation Standards
CQS	Credit Quality Steps
CRD	Capital Requirements Directive
CRM	Credit Risk Management
CRMT	Credit Risk Mitigation Technique
CRO	Chief Risk Officer
CRR	Capital Requirements Regulation
CS	Credit Suisse
CSG	Credit Suisse Group
CSL	Credit Suisse Luxembourg (S.A.)
CSSF	Commission de Surveillance du Secteur Financier
CVA	Credit Valuation Adjustment
DTA	Deferred Tax Assets
EAD	Exposure At Default
EBA	European Banking Authority

Term	Definition
ECAIs	External Credit Assessment Institutions
ECL	Expected Credit Loss
EU	European Union
EUR	Euro
FINMA	Swiss Financial Market Supervisory Authority
Finrep	Fnancial Reporting
FR	France
F-IRB	Foundation Internal Ratings-Based
FX risk	Foreign Exchange Risk
GCC	Group Compensation Committee
G-SII	Global Systemically Important Institutions
HQLA	High-Quality Liquid Assets
ICAAP	Internal Capital Adequacy Assessment Process
ICF	Internal Control Functions
IFRS	International Financial Reporting Standards
IMA	Internal Models Approach
IMM	Internal Model Method
MiFID	Markets in Financial Instruments Directive
IR	Interest Rate
IRRBB	Interest Rate Risk On The Banking Book
ISO	Information Security Officer
KRI	Key Risk Indicators
LCR	Liquidity Coverage Ratio
LEF	Legal Entity Finance
LMR	Liquidity Measurement and Reporting
LTV	Loan to Value
LU	Luxembourg
Lux GAAP	Luxembourg Generally Accepted Accounting Principles
MC	Management Committee
MARS	Market Risk System
MREL	Minimum Requirement for Own Funds and Eligible Liabilities
MRT	Material Risk Taker
MSR	Mortgage Servicing Rights
MTM	Mark-to-Market
NL	The Netherlands
NFRM	Non Financial Risk Management
NSFR	Net Stable Funding Ratio
OBS	Off-Balance Sheet
OCR	Overall Capital Requirement
OGR	Organisational Guidelines And Regulations
OROC	Operational Risk and Oversight Committee
OTC	Over-The-Counter
PEP	Global Political Exposed Persons
PFCE	Potential Future Credit Exposure
PSE	Public Sector Entity
RAS	Risk Appetite Statement
RC	Risk Committee
ROE	Return On Equity
RDAR	Risk Data Aggregation and Reporting
RDARR	Risk Data Aggregation And Risk Reporting

Term	Definition
RFDG	Risk & Finance Data Governance
RM	Relationship Manager
RP	Recovery Plan
RRF	Regulatory Reporting Framework
RSF	Total Required Stable Funding
RTS	Regulatory Technical Standards
RWA	Risk-Weighted Asset
SFT	Securities financing transactions
SRO	Strategic Risk Objectives
SREP	Supervisory Review and Evaluation Process
TLAC	Total Loss Absorbing Capacity
TLOF	Total Liabilities And Own Funds
TSCR	Total SREP Capital Requirement
UHNW	Ultra High Net Worth
UK	United Kingdom
USD	United States Dollar
VaR	Value-At-Risk
VG	Virgin Islands
ΔEVE	Economic Value of Equity
ΔNII	Net Interest Income

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