Credit Suisse (UK) Limited

# Basel III
# 2020 Pillar 3
# Disclosures

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# Introduction

This document comprises the Pillar 3 disclosures for Credit Suisse (UK) Limited ('CSUK' or 'the Bank') as at 31 December 2020. It should be read in conjunction with CSUK's 2020 Annual Report which can be obtained from Companies House, Crown Way, Cardiff, Wales, CF14 3UZ.

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

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

## Basis and Frequency of Disclosures

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

The annual report is prepared under International Financial Reporting Standards ('IFRS') and accordingly, certain information in the Pillar 3 disclosures may not be directly comparable. A reconciliation of regulatory 'own funds' calculated under CRD IV with CSUK's 2020 Statement of Financial Position is presented in the Capital Management section.

This Pillar 3 document has been verified and approved in line with internal policy. It has not been audited by CSUK's external auditors. However, it includes information that is contained within the audited financial statements as reported in the 2020 Annual Report.

## Basis of Consolidation

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

## Remuneration Disclosures

The remuneration disclosures required by CRR Art 450 can be found in a separate document ('Pillar 3 – UK Remuneration Disclosures 2020') on the Credit Suisse website at *www.credit-suisse.com*.

# Capital Management

## Overview

The Credit Suisse group ('CS group') considers a strong and efficient capital position to be a priority. Consistent with this, CSUK closely monitors its capital position on a continuing basis to ensure ongoing stability and support of its business activities. This monitoring takes account of the requirements of the current regulatory regime and any forthcoming changes to the capital framework.

Multi-year business forecasts and capital plans are prepared by CSUK, taking into account the business strategy and the impact of known regulatory changes. These plans are subjected to various stress tests, reflecting both macroeconomic and specific risk scenarios as part of the Internal Capital Adequacy Assessment Process ('ICAAP'). Within these stress tests, potential management actions are identified. The results of these stress tests and associated management actions are updated regularly, as part of the ICAAP, with results documented and reviewed by the Board of Directors. The ICAAP then forms the basis for the Supervisory Review and Evaluation Process conducted by the PRA when assessing the Bank's minimum level of regulatory capital.

## Capital Resources

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

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

CSUK's capital composition and principal capital ratios are presented in the tables below, together with a reconciliation to CSUK's 2020 IFRS Statement of Financial Position. No amount shown in 'Own Funds' is subject to CRD IV transitional provisions.

### Capital Composition (£000s)

| As at 31 December | | 2020 | 2020 | | 2019 |
|---|---|---|---|---|---|
| | | Own Funds | Statement of Financial Position[1] | Difference | Own Funds |
| | Note | (a) | (b) | (a) - (b) | |
| **Tier 1 (and CET1) Capital** | | | | | |
| Ordinary shares | | 245,230 | 245,230 | - | 245,230 |
| Share premium | | 11,200 | 11,200 | - | 11,200 |
| Retained earnings | | 9,012 | 27,243 | (18,231) | (16,640) |
| Capital contribution reserve | | 57,500 | 57,500 | - | 57,500 |
| **Tier 1 (and CET1) before regulatory deductions** | | **322,942** | **341,173** | **(18,231)** | **297,290** |
| **Prudential filters and regulatory adjustments** | | | | | |
| Intangible assets | (2) | (26,428) | - | (26,428) | (20,513) |
| Deferred tax assets on non-temporary differences | (3) | (1,041) | - | (1,041) | (2,103) |
| **Total Tier 1 (and CET1) Capital** | **(4)** | **295,460** | **341,173** | **(45,713)** | **274,674** |
| **Tier 2 Capital** | | | | | |
| Subordinated loan | | 55,000 | 55,000 | - | 55,000 |
| **Total Tier 2 Capital** | | **55,000** | **55,000** | **-** | **55,000** |
| **Total Capital ('Own Funds')** | **(5)** | **350,460** | **396,173** | **(45,713)** | **329,674** |

### Capital Ratios

| As at 31 December | 2020 | 2019 |
|---|---|---|
| Common Equity Tier 1 | 22.09% | 20.03% |
| Tier 1 | 22.09% | 20.03% |
| **Total Capital** | **26.20%** | **24.05%** |

**Notes:**

(1) 2020 Statement of Financial Position for (i) Total Equity and (ii) Subordinated Debt values are prepared under IFRS.

(2) Intangible assets and goodwill do not qualify as capital for regulatory purposes under CRD IV [CRR Article(s) 36(1)(b), 37]. The intangible assets increased by £6m on account of capitalised internally developed software.

(3) Deferred tax assets that rely on future profitability and do not arise from temporary differences net of associated tax liabilities are to be reduced from regulatory capital under Articles 36(1) point (c) and 38 of CRR.

(4) The total tier 1 capital figures included in the CSUK 2020 Annual Report (page 116) include the profit for the year ended 31 December 2020 and 2019 (restated) respectively, the amounts included in the Pillar 3 exclude the current year profit.

(5) Total capital figures included in the CSUK 2020 Annual Report (page 116) includes the profit for the year ended 31 December 2020 and 2019 (restated) respectively, the amounts included in the Pillar 3 exclude the current year profit.

The CSUK Total Capital Requirement (the sum of Pillar 1 and Pillar 2A) is 14.24% as set out in PRA notification relating to Policy Statement PS15/20 Pillar 2A: Reconciling capital requirements and macroprudential buffers ('PS15/20').

## Capital Resources Requirement

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

### RWA and Capital Requirements (£000s)

| As at 31 December | 2020 | 2020 | 2019 | 2019 |
|---|---|---|---|---|
| | RWAs | Capital Requirement | RWAs | Capital Requirement |
| **Credit and counterparty risk** | | | | |
| *Standardised Approach* | | | | |
| Institutions | 22,920 | 1,834 | 40,030 | 3,202 |
| Corporates | 80,230 | 6,418 | 81,305 | 6,504 |
| Retail | 14,875 | 1,190 | 10,972 | 878 |
| Secured by mortgages on immovable property | 618,676 | 49,494 | 723,128 | 57,850 |
| Exposure in Default | 199,338 | 15,947 | 96,236 | 7,699 |
| Items associated with particularly high risk (speculative immovable property financing) | 27,824 | 2,226 | 16,341 | 1,307 |
| Other items | 132,864 | 10,629 | 182,896 | 14,632 |
| **Total Standardised Approach** | **1,096,727** | **87,738** | **1,150,908** | **92,073** |
| *Credit Valuation Adjustment (CVA)* | | | | |
| CVA - Standardised Method | 1,167 | 93 | 2,976 | 238 |
| **Total CVA** | **1,167** | **93** | **2,976** | **238** |
| **(i) Total credit and counterparty credit risk** | **1,097,895** | **87,832** | **1,153,884** | **92,311** |
| **Market risk (PRA Standard Rules)** | | | | |
| Foreign exchange | - | - | - | - |
| **(ii) Total market risk** | **-** | **-** | **-** | **-** |
| **Other risks** | | | | |
| Settlement or delivery risk | - | - | 493 | 39 |
| Operational risk - Basic Indicator Approach | 239,911 | 19,193 | 216,641 | 17,331 |
| **(iii) Total other risks** | **239,911** | **19,193** | **217,134** | **17,371** |
| **Grand total RWA and capital requirements (i) - (iii)** | **1,337,806** | **107,024** | **1,371,018** | **109,681** |

**Notes:**
(1) The decrease in credit risk RWA is due to a reduction in exposure secured by mortgages, offset by an increase in defaulted exposures. Other items decreased as a result of repayments of Lombard loans and overdrafts.

## Linkages between Financial Statements and Regulatory Exposures

The table LI1 below shows the differences between the scope of accounting consolidation and the scope of regulatory consolidation.

### LI1: Differences between accounting and regulatory scopes of consolidation and mapping of financial statement categories with regulatory risk categories

| | col. a | col. b | col. c | col. d | col. e | col. f | col. g |
|---|---|---|---|---|---|---|---|
| | Carrying values as reported in published financial statements | Carrying values under scope of regulatory consolidation[1] | Carrying values of items: | | | | |
| **Balance sheet Assets (£000s)** | | | Subject to credit risk framework | Subject to counterparty credit risk framework | Subject to securitisation framework | Subject to market risk framework | Not subject to capital requirements or subject to deduction of capital |
| Cash and due from banks | 483,710 | 483,710 | 483,710 | - | - | - | - |
| Interest-bearing deposits with banks | 187,482 | 187,482 | 187,482 | - | - | - | - |
| Securities purchased under resale agreements | 880,396 | 880,396 | - | 880,396 | - | 880,396 | - |
| Trading financial assets mandatorily at fair value through profit or loss | 35,146 | 35,146 | - | 35,146 | - | 35,146 | - |
| Loans and Advances | 1,990,006 | 1,990,006 | 1,990,006 | - | - | - | - |
| Other assets | 46,609 | 46,609 | 46,609 | - | - | - | - |
| Deferred tax assets | 4,919 | 4,919 | 3,878 | - | - | - | 1,041 |
| Intangible assets | 12,675 | 12,675 | - | - | - | - | 12,675 |
| Goodwill | 13,752 | 13,752 | - | - | - | - | 13,752 |
| **Total assets** | **3,654,695** | **3,654,695** | **2,711,685** | **915,543** | **-** | **915,543** | **27,469[2]** |
| **Liabilities (£000s)** | | | | | | | |
| Deposits | 3,183,065 | 3,183,065 | 638,174 | - | - | - | 2,544,891 |
| Trading financial liabilities at fair value through profit or loss | 34,940 | 34,940 | - | 34,940 | - | 34,940 | - |

| | | | | | | | |
|---|---|---|---|---|---|---|---|
| Current Income tax liability | 2,267 | 2,267 | - | - | - | - | 2,267 |
| Other liabilities | 36,824 | 36,824 | - | 11 | - | 11 | 36,813 |
| Provisions | 1,426 | 1,426 | - | - | - | - | 1,426 |
| Long term debt | 55,000 | 55,000 | - | - | - | - | 55,000 |
| **Total liabilities** | **3,313,522** | **3,313,522** | **638,174** | **34,951** | **-** | **34,951** | **2,640,397** |

**Notes:**
(1) As of 2020, there is no difference between the carrying values reported in financial statements and those under the scope of regulatory consolidation.
(2) Column 'g' asset values represents the items subject to regulatory deduction from capital. These are also explained by notes (2) and (3) in the Capital Composition table.

The table LI2 below shows the main sources of differences between the financial statements' carrying value amounts and the exposure amounts used for regulatory purposes.

## LI2: Main sources of differences between regulatory exposure amounts and carrying values in financial statements

| (£000s) | | Total | Items subject to | | | |
|---|---|---|---|---|---|---|
| | | | Credit risk framework | Securitisation framework | Counterparty credit risk framework | Market risk framework |
| | | Col. a | Col. b | Col. c | Col. d | Col. e |
| 1 | Asset carrying value amount under scope of regulatory consolidation (as per template LI1) | 3,627,563 | 2,712,020 | - | 915,543 | 915,543 |
| 2 | Liabilities carrying value amount under regulatory scope of consolidation (as per template LI1) | 673,125 | 638,174 | - | 34,951 | 34,951 |
| 3 | Total net amount under regulatory scope of consolidation | 2,954,437 | 2,073,846 | - | 880,592 | 880,592 |
| 4 | Off-balance sheet amounts | 40,409 | 40,409 | - | - | - |
| 6 | Derivative transactions - Differences due to application of Standard Rules (SR) | 46,333 | - | - | 46,333 | - |
| 7 | SFT - differences due to application of Standard Rules (SR) (Repo-Var) | (880,408) | - | - | (880,408) | - |
| 8 | Other Differences not classified above | - | 10,156 | - | - | (880,592) |
| 9 | **Exposure amounts considered for regulatory purposes** | **2,160,435** | **2,124,411** | **-** | **46,516** | **-** |

**Notes:**
(1) Column (a) is not necessarily equal to the sum of columns (b) to (e) due to assets being risk-weighted more than once.

## Countercyclical Capital Buffer ('CCyB')

The Financial Policy Committee ('FPC') of the Bank of England is responsible for setting the UK Countercyclical Capital Buffer rate, i.e. the CCyB rate that applies to UK exposures of banks, building societies and large investment firms incorporated in the UK. In setting the CCyB, the FPC considers a number of core indicators such as credit to GDP ratios. CRD IV, as implemented in the UK, includes a transitional period, during which the FPC is responsible for deciding whether CCyB rates set by European Economic Area ('EEA') States should be recognised and for taking certain decisions about third country rates, including whether a higher rate should be set for the purposes of UK institutions calculating their CCyBs. CCyBs can be applied at a CS group, sub-consolidated or legal entity basis. CRD IV also includes the potential for a Systemic Risk Buffer, which could be similarly applied.

During 2020, FPC reduced the UK CCyB rate to 0% as a response to the financial stability risks associated with the economic disruption resulting from COVID-19. CCyB rates have also been set by Hong Kong and Luxembourg for 2020 that apply to exposures to those countries. No further disclosures are made on CCyB on basis of materiality.

## Economic Environment

Operating conditions were impacted by unprecedented events primarily driven by the global COVID-19 pandemic as well as geopolitical and macroeconomic uncertainties relating to the UK's withdrawal from the EU. During 2020, the vaccine breakthrough buoyed financial markets and global economies as virus fears were starting to cause renewed jitters with second and third waves already appearing. The vaccine development, coupled with what was perceived to be a market-friendly US Election result in early November, helped carry markets to year end in an upward trajectory, with a clearer pathway to a gradual return to normalcy as the vaccine distribution commences worldwide.

## COVID-19 impact on CSUK

The rapid spread of COVID-19 across the world in early 2020 led to the introduction of tight government controls and travel bans, as well as the implementation of other measures, which quickly closed down activity and increased economic disruption globally. World markets were severely negatively impacted, with multiple industries, including energy, industrials, retail and leisure, significantly affected. However, major central banks and governments around the world have responded by implementing unprecedented monetary and fiscal policy stimulus measures. UK economy shrank by 9.9% in 2020, the biggest contraction since 1709. The ongoing COVID-19 pandemic continues to cause disruption for the BAU activities of the Bank. CSUK is closely monitoring the impact of COVID-19 on operations and business.

## UK exit from EU

The UK's membership of the EU came to an end on Friday 31 January 2020. The UK entered into a transition period lasting until 11pm on Thursday 31 December 2020, which is defined in UK law as 'IP completion day', during which EU law continued to apply to the UK. HM Treasury used its powers under the European Union (Withdrawal) Act 2018 to ensure that the UK continued to have a functioning financial services regulatory regime at the end of the transition period. To do this, it ensured that EU-derived laws and rules that were in place in the UK before the end of the transition period continued to apply in the UK to the extent that they remain operable.

### Basel 3 reforms

In Nov 2020, HM Treasury, PRA and FCA issued a joint statement on implementation of remaining Basel 3 reforms that were not implemented in the EU before the end of the transition period and revised the target date to 1 January 2022 for the UK equivalent to EU's 2nd Capital Requirements Regulation ('CRR 2') that was originally due for 28 June 2021. In 2019, EU had published legislations to implement some of the remaining Basel 3 prudential reforms agreed by the Basel Committee on Banking Supervision ('BCBS') and collectively referred to as CRD V (Directive (EU) 2019/878) and CRR 2 (Regulation (EU) 2019/876). CRD V came into effect as of 28 December 2020 and onshored into the UK law. In February 2021, PRA issued a consultation paper on 'Implementation of Basel standards' on its proposed rules through a new PRA CRR rule instrument to implement part of the Basel 3 standards.

### Subsequent events

In March 2021, a US-based hedge fund failed to meet its margin commitments to CS group and a number of other banks, and as a result CS group has recorded a provision for credit losses of USD 4.7bn in Q1 2021 relating to this matter. CSUK is not directly impacted and has no direct exposure.

On 1 March 2021, the boards of the supply chain finance funds managed by certain CS group subsidiaries decided to suspend redemptions and subscriptions of those funds to protect the interests of the funds' investors. On 4 March 2021, the boards decided to terminate those funds and proceed to their liquidation. Those decisions were based on concerns that a substantial part of the funds' assets was subject to considerable valuation uncertainty. The assets held by the supply chain finance funds, largely consisting of notes backed by existing and future receivables, were originated and structured by Greensill Capital (UK) Limited or one of its affiliates (Greensill Capital). CSUK has seven clients with a maximum in total of £10mn of investments in Supply Chain funds as at 27 April 2021, the majority of these clients were not advised by CSUK.

A number of regulatory investigations and actions have been initiated or are being considered in respect of these matters. Furthermore, certain investors have already threatened litigation and, as this matter develops, CS group may become subject to litigation, disputes or other actions. It is reasonably possible that CS group will incur a loss in respect of these matters, albeit that given the early stage of this process, it is not yet possible to estimate the size of such a reasonably possible loss. Any such loss or a portion thereof arising from these matters could potentially impact CSUK to the extent of the limited involvement described above.

In the UK budget announcement of 3 March 2021, the UK government announced its intention to increase the UK corporation tax rate from 19% to 25% with effect from 1 April 2023. In addition, it announced that it would be undertaking a review of the UK bank corporation tax surcharge rate (currently 8%) in Autumn 2021 to ensure that the combined rate of tax on banks' profits does not increase substantially from its current level, that rates of taxation in the UK are competitive with the UK's major competitors in the US and the EU, and that the UK tax system is supportive of competition in the UK banking sector. Given the uncertainty of the combined rate of tax on bank's profits to apply from 1 April 2023, it is not possible to assess the overall impact of the proposed changes in the UK corporation tax rate and UK bank corporation tax surcharge on deferred tax assets and liabilities.

# Risk Management

## Overview

CSUK's risk management framework is based on transparency, management accountability and independent oversight. Risk management plays an important role in the CSUK's business planning process and is strongly supported by senior management and the Board of Directors. The primary objectives of risk management are to protect CSUK's financial strength and reputation, while ensuring that capital is well deployed to support business activities and grow shareholder value. The Bank has implemented risk management processes and control systems and it works to limit the impact of negative developments by monitoring all relevant risks including credit, operational, conduct, liquidity, technology and cyber, reputational and market risks.

Capital risk is the risk that we do not have adequate capital to support our activities and maintain the minimum capital requirements. For CSUK, the primary drivers of capital risk are credit risk, operational risk and conduct risk and theseindividual components are identified, monitored and managed as detailed below. Under the Basel framework, we are required to maintain a robust and comprehensive framework for assessing capital adequacy and ensuring that capital is consistent with our overall risk profile and the current operating environment. The Bank's capital management framework is designed to ensure that we meet all regulatory capital requirements and the CSUK ALM CARMC reviews the current capital adequacy position as well as a forecast position to identify any potential adverse movements which could require management action.

## Board of Directors

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

The Risk Appetite Statement is formally reviewed and approved at least once a year by the Board. Key risks are also formally reviewed and assessed on a quarterly basis by the Board Risk Committee and the Board as required. In addition, key business risks are identified, evaluated and managed by operating management on an ongoing basis by means of policies and processes such as credit and market risk limits and other operational metrics, including authorisation limits, and segregation of duties. The Board receives regular reports on any risk matters that need to be brought to its attention. Significant risks identified in connection with the development of new activities are subject to consideration by the Board. There are well-established business planning procedures in place and reports are presented regularly to the Board detailing the performance of CSUK, variances against budget, prior year and other performance data.

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

The Board supports the Whistleblowers' Champion to review and assess the integrity, independence, effectiveness and autonomy of the Bank's policies and procedures on whistleblowing.

## Risk Profile associated with Business Strategy

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

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

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

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

Key risk categories, their mitigation and associated metrics are discussed further in Annex 2, with additional disclosures on CSUK's risk management framework detailed in its 2020 Annual Report.

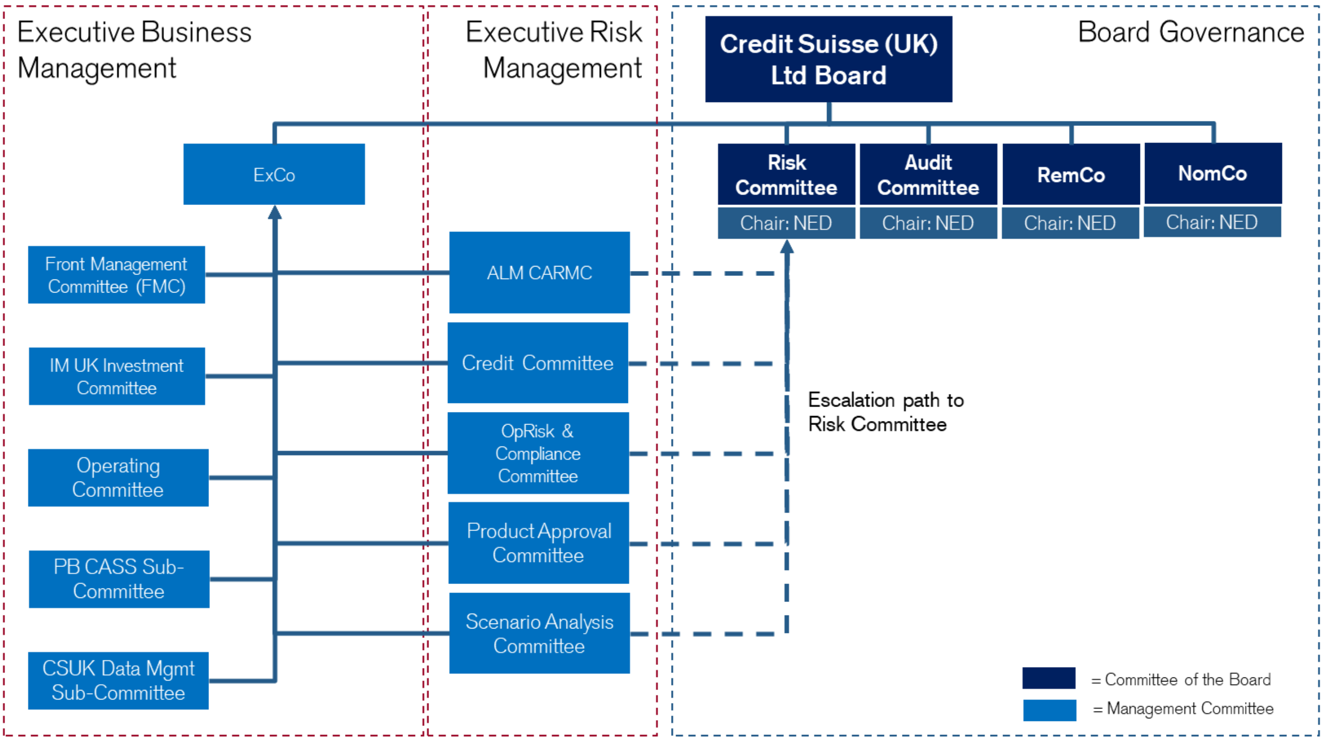
### Risk Governance

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

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

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

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




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

### Board Committees Overview

Certain responsibilities are delegated to Board Committees, which assist the Board in carrying out its functions and ensure that there is independent oversight of internal control and risk management. Each Board Committee has Terms of Reference, recording the scope of delegated authority and the committee's responsibilities. Each Board Committee is chaired by an independent Non-Executive Director ('NED'), who reports to the Board on the matters discussed at Committee meetings.

- Risk Committee: The Risk Committee advises the Board on the risk appetite and provides oversight of the integrity and adequacy of risk management responsibilities including processes and organisational frameworks, as defined by applicable law and regulation, articles of association and internal regulations. In particular, the committee reviews and assesses the identification, measurement and management of the various risks within the entity, as presented in the ICAAP and ILAAP.

- Audit Committee: The Audit Committee provides oversight of the integrity and adequacy of the financial reporting process, the internal audit process, internal controls and accounting and risk management systems, as defined by applicable law and regulations, articles of association and internal regulations. The Audit Committee is responsible for contributing to the process of the selection and recommendation of the appointment of the External Auditors, including monitoring their qualifications, independence, performance and the suitability of the provision (if any) of non-audit services to the Bank. The Audit Committee also reviews and assesses the independence, integrity, adequacy of resourcing and performance, of CSUK Internal Audit. The Audit Committee is authorised to have direct access to, and receive regular reports from, the External and Internal Auditors as well as CSUK's management and employees.

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

- Nominations Committee: The Nominations Committee is responsible for the identification and recommendation for approval, by CS group, candidates to fill vacancies on the Board of CSUK, making recommendations to the Board concerning the role of Chair and membership of the Board Committees, in consultation with the Chairs of those committees, and annually leading a Board evaluation process.

### Executive Risk Management Committees Overview

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

- Credit Committee: The Credit Committee is chaired by the CRO and members consist of senior management. It meets to discuss issues and risks relating to the credit exposures arising from the Bank's business activities. The Committee is responsible for approving, monitoring and controlling all credit exposures of CSUK and managing the risks associated with the loan portfolio, including reviewing, and monitoring adherence to, CSUK's Credit Policies and Credit Risk Appetite Framework.

- ALM Capital Allocation and Risk Management Committee ('ALM CARMC'): The CSUK ALM CARMC is chaired by the CSUK Chief Financial Officer ('CFO'). It is responsible for the management of Asset and Liability Management ('ALM') risks, including: the CSUK capital and liquidity position vs. internal and external limits; current, future and stressed liquidity and capital positions of CSUK; and, the impact of current and future regulatory changes on the capital and liquidity position. ALM CARMC advises the CSUK Board RC in respect of capital and liquidity stress testing, capital and liquidity buffers and the setting of risk thresholds, and has oversight of the ICAAP and ILAAP processes. In addition, the CSUK Funding Execution Committee is formed on activation of the CSUK crisis management plans and is responsible for ensuring that the CSUK adopts an appropriate response to significant liquidity and funding issues impacting the UK entities during periods of stress.

- Operational Risk and Compliance Committee: Co-chaired by the CRO and the Chief Compliance Officer ('CCO') is responsible for maintaining sound and robust operational risk management across CSUK by acting as a central business governance committee to discuss, understand, measure, and access key operational and compliance risks to the Bank.

- Product Approval Committee ('PAC'): Chaired by the Head of A&S UK, is responsible for the review and approval of relevant products and services (including service propositions) that are developed, offered for sale and/or made available by the Bank to clients or prospective clients. In addition, the PAC is responsible for monitoring compliance with all relevant market requirements.

- Scenario Analysis Committee ('SAC'): The purpose of SAC, chaired by the CRO, is to review and approve stress testing model design, scenarios, methodology and results as per the entity's stress testing model. The committee also reviews independent model validations for CSUK stress testing.

### Three Lines of Defence

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

- First Line of Defence

The first line of defence is the front office and business units, who are responsible for pursuing suitable business opportunities within the strategic risk objectives and compliance requirements of CSUK. Its primary responsibilities are to ensure compliance with relevant legal and regulatory requirements, to maintain effective internal controls and to manage risk within the agreed risk appetites. First Line of Defence Support ('FLDS') reports to the CSUK COO. Its objectives are to ensure that existing and emerging risks in CSUK's business are identified and that controls are established to effectively mitigate and manage these risks.

- Second Line of Defence

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

- Third Line of Defence

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

## Risk Culture

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

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

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

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

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

## Risk Management Framework

The Bank's risk management framework is based on transparency, management accountability and independent oversight. Risk management plays an important role in the Bank's business planning process and is strongly supported by senior management and the Board. The primary objectives of risk management are to protect the Bank's financial strength and reputation, while ensuring that capital and liquidity are well deployed to support business activities and grow shareholder value. The Bank has implemented risk management processes and control systems and it works to limit the impact of negative developments by monitoring all material and significant risks.

## Risk Organisation

The prudent taking of risk in line with the Bank's strategic priorities is fundamental to its business as part of a leading global banking group. To meet the challenges in a fast changing industry with new market players and innovative and complex products, the Bank seeks to continuously strengthen the risk function, which is independent of but closely interacts with the businesses.

## Risk Functions

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

The Bank's second line of defence is led by the CRO and the CCO, who both report jointly to the Bank's CEO and to CS group IWM CRCO management. The CCO is responsible for monitoring and setting risk appetite for conduct risk and regulatory risk and financial crime risk via the Money Laundering Reporting Officer ('MLRO'). The CRO is responsible for overseeing the Bank's risk profile across all other risk types. In combination, the CRO and CCO are responsible for providing oversight and establishing a framework to monitor and manage all risk matters. Additionally, the Chair of the Risk Committee (a NED) is responsible for ensuring independence of the risk management function.

## Chief Risk Office ('CRO')

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

- Credit Risk Management is responsible for approving credit limits, monitoring, and managing individual exposures, and assessing and managing the quality of credit portfolios;
- Operational Risk Management ('ORM'), which includes Technology ORM, is responsible for the identification, assessment and monitoring of operational risks relating to systems, people and processes and external events including but not limited to Technology and Cyber Risk, Outsourcing and process risks;
- Liquidity Risk Management is responsible for assessing and monitoring the market and liquidity risk profiles of the Bank and recommending corrective action, where necessary;
- Reputational Risk Management is key to identifying both internal and external incidents which may result in damage to the Bank's reputation; and
- Market Risk Management is responsible for managing FX and interest rate exposures to specific risk thresholds.

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

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

In addition, the Bank's CRO Function also leverages support from central Group risk functions to assist with the management of model risk (relating primarily to the use of models in the ICAAP, ILAAP and in the estimation of expected credit losses) and technology risk.

## Chief Compliance Office ('CCO')

The Bank's Compliance function is headed by the CSUK Chief Compliance Officer and is responsible for providing compliance monitoring, advice and support in respect of all activities of CSUK and for providing effective and robust challenge as it assists senior management in effectively managing compliance and conduct risks. It advises on Compliance rules and regulations, including informing management and employees of relevant developments to enable them to comply with their regulatory obligations.

The CSUK Compliance function fulfils its responsibilities by establishing relevant policies and procedures, delivery of training and education programmes, providing day to day compliance advice, overseeing the implementation of an adequate monitoring, surveillance, and testing programme, and escalating potential compliance and/or control issues. The CSUK Compliance coverage team provides advice and support to senior management in managing and mitigating compliance-related risks faced by CSUK.

The CCO function is responsible for providing independent oversight and control over the compliance, regulatory and conduct risks.

In relation to competent authorities and financial market participants established in the EEA and by extension to UK EU Withdrawal, the requirement to establish and maintain a permanent and effective compliance function, which operates independently, is governed by the Markets in Financial Instruments Directive ('MiFID') as amended by MiFID II and Markets in Financial Instruments Regulation ('MiFIR').

The compliance function has the following responsibilities:

a) to monitor and, on a regular basis, to assess the adequacy and effectiveness of the measures and procedures put in place designed to detect and mitigate any risk of failure by the firm to comply with its obligations under the MiFID Directive as well as associated risks, and the actions taken to address any deficiencies in the firm's compliance with its obligations;

b) to advise and assist the relevant persons responsible for carrying out investment services and activities to comply with the firm's obligations under the Directive.

CCO coverage extends beyond MiFID/MiFIR scope to include:

- Anti-fraud
- Client tax compliance
- Inside information and conflicts of interest
- Cross-border business
- Employee compliance matters, including outside interests and personal account trading and other employee related surveillance activities
- Marketing materials and financial promotions
- Suitability and appropriateness
- Client Lifecycle (e.g client onboarding, change in client circumstances)
- Regulatory Shareholder Reporting
- Market abuse

In relation to its responsibilities to oversee and report on conduct risks, the CCO function chairs the Conduct Review Panel, attended by representatives from CRO, FLDS and HR. This forum considers conduct risk matters raised to it and makes suggestions for further actions. CCO is responsible for ensuring matters are progressed through the internal conduct review process where appropriate and where necessary refers to the UK Conduct and Ethics Review Panel for further determination. The CCO function will determine when it is necessary to refer matters to the Compliance Investigations team for formal investigation.

The CCO function monitors key risk indicators contained within the CSUK Conduct Risk Appetite and reports any breaches of agreed tolerances to the CSUK Board Risk Committee.

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

FCC responsibilities include (but are not limited to) oversight and implementation of the UK legislation with regards to financial crime (POCA, UK Bribery Act, etc), researching and providing advice in relation to high risk client types including Politically Exposed Persons ('PEP') relationships and those with heightened FCC reputational risk.

- FCC fulfils its responsibilities by ensuring that there are appropriate and proportionate risk management systems and controls in place to counter the risk that the entity might be used to further financial crime, overseeing the implementation of an adequate monitoring, surveillance and testing programme, specific to Anti-Money Laundering ('AML') , Sanctions, Anti-Bribery and Corruption ('ABC') and Financial Crime prevention, and providing guidance and training to CSUK employees in relation to financial crime matters. FCC receive disclosures under the UK legislation with regards to suspicions and assessing whether they need to be reported to the appropriate external authorities.

### CS group committee support

While local committees are implemented at a senior management level to support risk management for the entity, CSUK get further support from CS group committees. For example, CS group's Reputational Risk and Sustainability Committee sets policies and reviews processes and significant cases relating to reputational risks. CS group Risk Processes and Standards Committee ('RPSC') is responsible for establishing and approving standards regarding risk management and risk measurement, including methodology and parameters across CS group. Finally, CS group Credit Portfolio and Provisions Review Committee review the quality of the credit portfolio with a focus on the development of impaired assets and the assessment of related provisions and valuation allowances.

# Credit Risk

## Overview

Credit risk is the risk of financial loss arising as a result of a borrower or counterparty failing to meet its financial obligations or as a result of deterioration in the credit quality of the borrower or counterparty and/or impairment of collateral.

In the event of a default, a bank generally incurs a loss equal to the amount owed by the debtor, less any recoveries resulting from foreclosure, liquidation of collateral or the restructuring of the debtor. Credit risk exists within lending products, commitments, and results from counterparty exposure arising from foreign exchange derivative and other transactions.

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

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

Concentration risk is managed via limits setting and sub-participation to CS AG.

## Credit Limits, Approval and Reviews

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

This CSUK Credit Risk Management Framework is regularly refined and covers all business areas that are exposed to credit risk. The Framework is designed to cover all of the credit exposures in the business and comprises seven core components:

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

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

CS group has developed a set of credit rating models tailored for different client segments (e.g. international corporates, financial institutions, asset finance, Small and Medium Enterprises, commodity traders and residential mortgages) for the purpose of internally rating counterparties to whom CS group is exposed to credit risk as the contractual party to a loan, loan commitment or exchange-traded/over-the-counter derivative contract. The models are built from statistical data and then subject to a thorough business review before implementation. Each credit rating model is validated independently prior to implementation and on a regular basis. At the time of initial credit approval and review, relevant quantitative data (e.g. financial statements and financial projections) as well as qualitative factors relating to the counterparty are used in the models and result in the assignment of a credit rating or probability of default (‘PD’), which measures the counterparty's risk of default over a one-year period.

To ensure that ratings are consistent and comparable across all businesses, CS group has used an internal rating scale which is benchmarked to the external rating agencies, using the historical PD associated with external ratings. The relationship between the PD and external agency ratings is reviewed on a regular basis and adjustments are made to calibrate the internal rating classification to the assumed PD in the external ratings.

Additionally, an estimate of expected loss in the event of a counterparty default is assigned based on the structure of each transaction. The counterparty credit rating is used in combination with credit (or credit equivalent) exposure and the loss given default (‘LGD’) assumption to estimate the potential credit loss. LGD represents the expected loss on a transaction should default occur and takes into account structure, collateral, seniority of the claim and, in certain areas, the type of counterparty.

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

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

In addition, credit risk is regularly reviewed by the Credit Committee taking current market conditions and trend analysis into consideration. The committee regularly analyses diversification and concentrations in selected areas as well as emerging risks in lending sectors.

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

Regular watch-list meetings are used to determine whether certain positions should be transferred to, and managed by Recovery Management International ('RMI'), an independent function that is responsible for setting the strategy and determining provision levels for impaired facilities. A systematic provisioning methodology is used to identify potential credit risk-related losses and impaired transactions are classified as potential problem exposure, non-performing exposure, or non-interest earning exposure. Such provision levels are reviewed on an ongoing basis by RMI with any proposed changes advised to CSUK.

The Bank is also mindful of the current economic uncertainty on its clients and CSUK's COVID-19 forbearance policy adheres to the guidance issued by the FCA. For the purpose of the ECL calculation, clients subject to COVID forbearance would be classified as performing (Stage 1) unless their circumstances are considered to represent a significant increase in credit risk. If a significant increase in credit risk is identified, a client would be classified as Stage 2 and the ECL would be calculated on a lifetime basis until such time that the situation has improved.

### Credit Risk Mitigation and Collateral

The Bank regularly agrees upon collateral in the lending contracts to be received from borrowers. Collateral is security in the form of an asset or third-party obligation that serves to mitigate the inherent risk of credit loss in an exposure, by either substituting the borrower default risk or improving recoveries in the event of a default.

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

The policies and processes for collateral valuation and management are defined by a legal document framework that is bilaterally agreed with our clients and, a collateral management risk framework enforcing transparency through self-assessment and management reporting.

Collateral securing loan transactions primarily includes:

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

#### Real Estate Collateral

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

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

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

The criteria used for the analysis includes the following:

- The level of activity in the market;

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

Lombard Collateral

Collection of financial collateral is a key risk management tool for securities financing transactions through Lombard lending. Subject to legally enforceable agreements, collateral may be accepted in many different currencies and jurisdictions, and the collateral process creates potentially significant legal, tax, credit, regulatory and operational issues for the business, in addition to the liquidity issues involved in managing a large portfolio of collateral assets and liabilities. CSUK's strategy with respect to collateral is subject to a robust collateral policy, which details standards of acceptable collateral (including collateral type, liquidity, quality, and jurisdiction), valuation frequency, haircuts and agreement type. Utilisation under the facility is restricted to the lower of the credit limit or the collateral value held. Additionally, thresholds are established for the management of collateral concentrations, in line with CSUK's business strategy and risk appetite.

For portfolios collateralised by marketable securities, the valuation is performed daily. Exceptions are governed by the calculation frequency described in the legal documentation. The mark-to-market prices used for valuing collateral are a combination of internally calculated and market prices sourced from trading platforms and service providers, where appropriate. The management of collateral is standardised and centralised to ensure complete coverage of traded products.

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

### Netting

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

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

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

### Regulatory Risk Weighting Approach

CSUK applies the Standardised Approach in determining the risk weights applied for the calculation of regulatory capital requirements for credit and counterparty risk under Pillar 1. Under this approach, ratings published by External Credit Assessment Institutions ('ECAIs') are mapped to Credit Quality Steps ('CQS') according to mapping tables laid down by the European Banking Authority ('EBA'). The CQS value is then mapped to a risk weight percentage. The ECAI used by CSUK for all types of exposures is Standard & Poor's.

### Credit Exposures under the Standardised Approach

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

#### Credit quality step analysis of pre-CRM exposure and capital deductions under the standardised approach (£000s)

| As at 31 December 2020 | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|
| | Credit quality step | | | | | | Unrated | **Total** | Deduction from capital resources |
| **Standardised Approach - credit exposures** | *1* | *2* | *3* | *4* | *5* | *6* | | | |
| Central governments and central banks | - | - | - | - | - | - | 4,847 | **4,847** | - |
| Institutions | - | - | - | - | - | - | 60,553 | **60,553** | - |
| Corporates | - | - | - | - | - | - | 154,955 | **154,955** | - |
| Retail | - | - | - | - | - | - | 37,957 | **37,957** | - |
| Secured by mortgages on immovable property | - | - | - | - | - | - | 1,509,862 | **1,509,862** | - |
| Exposure in Default | - | - | - | - | - | - | 192,613 | **192,613** | - |
| Items associated with particularly high risk (speculative immovable property financing) | - | - | - | - | - | - | 21,553 | **21,553** | - |
| Other items | - | - | - | - | - | - | 188,587 | **188,587** | - |
| **Total** | **-** | **-** | **-** | **-** | **-** | **-** | **2,170,927** | **2,170,927** | **-** |

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

| As at 31 December 2020 | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|
| | Credit Quality Step | | | | | | Unrated | Total | Deduction from Capital Resources |
| Standardised Approach - Credit Exposures | *1* | *2* | *3* | *4* | *5* | *6* | | | |
| Central governments and central banks | - | - | - | - | - | - | 4,847 | **4,847** | - |
| Institutions | - | - | - | - | - | - | 60,553 | **60,553** | - |
| Corporates | - | - | - | - | - | - | 80,230 | **80,230** | - |
| Retail | - | - | - | - | - | - | 19,833 | **19,833** | - |
| Secured by mortgages on immovable property | - | - | - | - | - | - | 1,496,288 | **1,496,288** | - |
| Exposure in Default | - | - | - | - | - | - | 192,613 | **192,613** | - |
| Speculative immovable property financing | - | - | - | - | - | - | 21,553 | **21,553** | - |
| Other items | - | - | - | - | - | - | 127,258 | **127,258** | - |
| **Total** | **-** | **-** | **-** | **-** | **-** | **-** | **2,003,176** | **2,003,176** | **-** |

## Credit Exposures, Risk-Weighted Assets and Capital Requirements

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

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

| As at 31 December 2020 | | | | | |
|---|---|---|---|---|---|
| | Exposure at default (pre-CRM) | | RWAs | | Capital requirement |
| Credit exposures by regulatory approach: | Average exposure for year | Year-end exposure | Average for year | Year-end | Year-end |
| *Standardised Approach* | | | | | |
| Central governments and central banks | 4,563 | 4,847 | - | - | - |
| Institutions | 64,411 | 60,553 | 36,665 | 22,920 | 1,834 |
| Corporates | 153,681 | 154,955 | 91,218 | 80,230 | 6,418 |
| Retail | 32,425 | 37,957 | 12,718 | 14,875 | 1,190 |
| Secured by mortgages on immovable property | 1,564,963 | 1,509,862 | 635,719 | 618,676 | 49,494 |
| Exposure in Default | 180,924 | 192,613 | 186,005 | 199,338 | 15,947 |
| Items associated with particularly high risk (speculative immovable property financing) | 14,454 | 21,553 | 20,018 | 27,824 | 2,226 |
| Other items | 209,644 | 188,587 | 148,197 | 132,864 | 10,629 |
| **Total Standardised Approach** | **2,225,065** | **2,170,927** | **1,130,539** | **1,096,727** | **87,738** |
| **Total** | **2,225,065** | **2,170,927** | **1,130,539** | **1,096,727** | **87,738** |

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

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

| As at 31 December 2020 | | | | | | |
|---|---|---|---|---|---|---|
| Credit exposures by regulatory approach: | UK | Other Europe | Americas* | Middle East and Africa | Asia Pacific | Total |
| *Standardised Approach* | | | | | | |
| Central governments and central banks | 4,847 | - | - | - | - | 4,847 |
| Institutions | 3,496 | 56,602 | 220 | - | 236 | 60,553 |
| Corporates | 46,952 | 66,725 | 36,147 | 5,132 | - | 154,955 |
| Retail | 34,824 | 1,315 | 494 | 1,269 | 54 | 37,957 |
| Secured by mortgages on immovable property | 573,566 | 342,774 | 309,607 | 123,362 | 160,552 | 1,509,862 |
| Exposures in Default | 57,213 | 14,448 | 98,434 | 18,309 | 4,209 | 192,613 |
| Items associated with particularly high risk (speculative immovable property financing) | - | 21,553 | - | - | - | 21,553 |
| Other items | 166,349 | 10,614 | 71 | 8,520 | 3,033 | 188,587 |
| **Total Standardised Approach** | **887,247** | **514,031** | **444,973** | **156,592** | **168,084** | **2,170,927** |
| **Total** | **887,247** | **514,031** | **444,973** | **156,592** | **168,084** | **2,170,927** |

*includes exposure to counterparties domiciled in British Virgin Islands, Panama.

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

## Credit Exposures - Analysed by Industry (£000s)

| As at 31 December 2020 | | | | | |
|---|---|---|---|---|---|
| Credit exposures by regulatory approach: | Financial | Commercial | Consumer | Public Authorities | Total |
| *Standardised Approach* | | | | | |
| Central governments and central banks | 406 | - | - | 4,441 | 4,847 |
| Institutions | 60,553 | - | - | - | 60,553 |
| Corporates | 111,509 | 43,244 | 203 | - | 154,955 |
| Retail | 1,276 | 69 | 36,612 | - | 37,957 |
| Secured by mortgages on immovable property | 245,889 | 378,407 | 885,566 | - | 1,509,862 |
| Exposure in Default | 10,704 | 93,259 | 88,650 | - | 192,613 |
| Items associated with particularly high risk (speculative immovable property financing) | 5,820 | 15,733 | - | - | 21,553 |
| Other items | 5,504 | - | 183,083 | - | 188,587 |
| **Total** | **441,661** | **530,712** | **1,194,114** | **4,441** | **2,170,927** |

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

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

| As at 31 December 2020 | | | | |
|---|---|---|---|---|
| Credit exposures by regulatory approach: | Up to 12 months | 1 - 5 years | Greater than 5 years | Total |
| *Standardised Approach* | | | | |
| Central governments and central banks | 4,847 | - | - | 4,847 |
| Institutions | 60,553 | - | - | 60,553 |
| Corporates | 154,955 | - | - | 154,955 |
| Retail | 37,957 | - | - | 37,957 |
| Secured by mortgages on immovable property | 230,951 | 1,272,607 | 6,303 | 1,509,862 |
| Exposures in Default | 111,160 | 81,453 | - | 192,613 |
| Items associated with particularly high risk (speculative immovable property financing) | - | 21,553 | - | 21,553 |
| Other items | 188,587 | - | - | 188,587 |
| **Total Standardised Approach** | **789,011** | **1,375,614** | **6,303** | **2,170,927** |
| **Total** | **789,011** | **1,375,614** | **6,303** | **2,170,927** |

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

CSUK's accounting policies relating to impairment can be found in the 2020 Annual Report, Note 2, along with the definition for accounting purposes of 'impaired'. Information on impairment losses can be found in Note 16.

The following tables analyse the credit quality of non-performing, forborne exposures and related provisions.

## Credit quality of forborne exposures (£000s)

| | a | b | c | d | e | f | g | h |
|---|---|---|---|---|---|---|---|---|
| | Gross carrying amount/nominal amount of exposures with forbearance measures | | | | Accumulated impairment, accumulated negative changes in fair value due to credit risk and provisions | | Collateral received and financial guarantees received on forborne exposures | |
| | Performing forborne | Non-performing forborne | | | On performing forborne exposures | On non-performing forborne exposures | | Of which collateral and financial guarantees received on non-performing exposures with forbearance measures |
| | | | Of which defaulted | Of which impaired | | | | |
| Loans and advances | - | 32,231 | 32,231 | 32,231 | - | (7,324) | 24,930 | 24,930 |
| *Households* | - | 32,231 | 32,231 | 32,231 | - | (7,324) | 24,930 | 24,930 |
| ***Total*** | **-** | **32,231** | **32,231** | **32,231** | **-** | **(7,324)** | **24,930** | **24,930** |

## Credit quality of performing and non-performing exposures by past due days (£000s)

| | a | b | c | d | e | f | g | h | i | j | k | l |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | Gross carrying amount/nominal amount | | | | | | | | | | | |
| | Performing exposures | | | Non-performing exposures | | | | | | | | |
| | | Not past due or past due ≤ 30 days | Past due > 30 days ≤ 90 days | | Unlikely to pay that are not past due or are past due ≤ 90 days | Past due > 90 days ≤ 180 days | Past due > 180 days ≤ 1 year | Past due > 1 year ≤ 2 years | Past due > 2 years ≤ 5 years | Past due > 5 years ≤ 7 years | Past due > 7 years | Of which defaulted |
| **Loans and advances** | **3,366,823** | **3,343,581** | **10,044** | **191,940** | **110,787** | **9,078** | **12,240** | **27,604** | **32,231** | **-** | **-** | **191,940** |
| *Central banks* | 4,441 | 4,441 | - | - | - | - | - | - | - | - | - | - |
| *Credit institutions* | 1,547,221 | 1,547,221 | - | - | - | - | - | - | - | - | - | - |
| *Other financial corporations* | 361,223 | 355,329 | - | 10,523 | 1,321 | 5,033 | 4,088 | 81 | - | - | - | 10,523 |
| *Non-financial corporations* | 388,908 | 378,901 | 2,704 | 92,997 | 57,322 | - | 8,152 | 27,523 | - | - | - | 92,997 |
| *Households* | 1,065,030 | 1,057,690 | 7,340 | 88,420 | 52,144 | 4,045 | - | - | 32,231 | - | - | 88,420 |
| **Off-balance-sheet exposures** | **47,339** | | | **-** | | | | | | | | **-** |
| *Other financial corporations* | 4,875 | | | - | | | | | | | | - |
| *Non-financial corporations* | 27,259 | | | - | | | | | | | | - |
| *Households* | 15,204 | | | - | | | | | | | | - |
| **Total** | **3,414,161** | **3,356,794** | **10,028** | **191,940** | **110,787** | **9,078** | **12,240** | **27,604** | **32,231** | **-** | **-** | **191,940** |

## Performing and non-performing exposures and related provisions (£000s)

| | a | b | c | d | e | f | g | h | i | j | k | l | n | o |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | Gross carrying amount/nominal amount | | | | | | Accumulated impairment, accumulated negative changes in fair value due to credit risk and provisions | | | | | | Collateral and financial guarantees received | |
| | Performing exposures | | | Non-performing exposures | | | Performing exposures – accumulated impairment and provisions | | | Non-performing exposures – accumulated impairment and provisions | | | On performing exposures | On non-performing exposures |
| | | Of which stage 1 | Of which stage 2 | | Of which stage 2 | Of which stage 3 | | Of which stage 1 | Of which stage 2 | | Of which stage 2 | Of which stage 3 | | |
| **Loans and advances** | **3,366,823** | **3,292,887** | **73,936** | **191,940** | **-** | **191,940** | **(2,434)** | **(2,238)** | **(195)** | **(9,017)** | **-** | **(9,017)** | **2,688,490** | **182,193** |
| *Central banks* | 4,441 | 4,441 | - | - | - | - | (0) | (0) | - | - | - | - | - | - |
| *Credit institutions* | 1,547,221 | 1,547,221 | - | - | - | - | (20) | (20) | - | - | - | - | 880,396 | - |
| *Other financial corporations* | 361,223 | 361,223 | - | 10,523 | - | 10,523 | (342) | (342) | - | (432) | - | (432) | 359,986 | 9,945 |
| *Non-financial corporations* | 388,908 | 356,967 | 31,942 | 92,997 | - | 92,997 | (870) | (746) | (124) | (1,183) | - | (1,183) | 385,755 | 91,229 |
| *Households* | 1,065,030 | 1,023,036 | 41,994 | 88,420 | - | 88,420 | (1,201) | (1,130) | (71) | (7,402) | - | (7,402) | 1,062,352 | 81,018 |
| **Off-balance-sheet exposures** | **47,339** | **44,689** | **2,650** | **-** | **-** | **-** | **7** | **7** | **-** | **-** | **-** | **-** | **44,399** | **-** |
| *Other financial corporations* | 4,875 | 4,875 | - | - | - | - | 0 | 0 | - | - | - | - | 4,875 | - |
| *Non-financial corporations* | 27,259 | 24,609 | 2,650 | - | - | - | 7 | 7 | - | - | - | - | 27,259 | - |
| *Households* | 15,204 | 15,204 | - | - | - | - | 1 | 1 | - | - | - | - | 12,264 | - |
| **Total** | **3,414,161** | **3,337,576** | **76,586** | **191,940** | **-** | **191,940** | **(2,426)** | **(2,231)** | **(195)** | **(9,017)** | **-** | **(9,017)** | **2,732,888** | **182,193** |

## Effect of a Credit Rating Downgrade

CSUK itself is not a rated entity. CSUK relies on other companies in CS group for funding and capital, and therefore would be affected by any change to the ratings of those companies. The impact of downgrades of CS group long-term debt ratings is considered in the stress assumptions used to determine the conservative funding profile of the balance sheet and would not be material to the CSUK's liquidity and funding needs.

## Counterparty Credit Risk

Counterparty credit risk ('CCR') arises from OTC and exchange-traded derivatives, repurchase agreements, securities lending and borrowing and other similar products and activities. The related credit risk exposures depend on the value of underlying market factors (e.g. interest rates and foreign exchange rates), which can be volatile and uncertain in nature. CSUK enters into derivative contracts primarily in connection with managing its liquidity requirements and hedging residual market risk.

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

### Net Derivatives Credit Exposure (£000s)

| As at 31 December 2020 | Gross positive fair value of contracts (i) | Netting benefits | **Netted current credit exposure** | Collateral held | **Net derivatives credit exposure** |
|---|---|---|---|---|---|
| CCR Mark-to-market Method | 63,985 | (17,469) | 46,516 | - | 46,516 |
| *of which Long Settlement Trades* | - | - | - | - | - |
| Internal Model Method | - | - | - | - | - |
| **Total** | **63,985** | **(17,469)** | **46,516** | **-** | **46,516** |

(i) including gross Potential Future Credit Exposure ('PFE')

## Exposures covered by Credit Risk Mitigation

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

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

| As at 31 December 2020 | |
|---|---|
| Credit exposures by regulatory approach: | Financial Collateral |
| **Standardised Approach** | |
| Corporates | 74,725 |
| Secured by mortgages on immovable property | 13,574 |
| Retail | 18,123 |
| Other items | 61,329 |
| **Total Standardised Approach** | **167,751** |
| **Total** | **167,751** |

CSUK has no exposures covered by unfunded credit risk mitigation.

# Liquidity Risk

Liquidity risk is the risk that a bank is unable to fund assets and meet obligations as they fall due under both normal and stressed market conditions.

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

In addition, auxiliary metrics are risk managed, such as currency coverage ratios – measuring liquidity risk on a single currency level – as well as the reliance CSUK places on other legal entities within CS group. Liquidity risks are assessed annually as part of the ILAAP.

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

### Liquidity Coverage Ratio (LCR) (£ million)

| | Total Adjusted Value | | | |
|---|---|---|---|---|
| **Quarter ending on** | **31/03/2020** | **30/06/2020** | **30/09/2020** | **31/12/2020** |
| **Number of data points used in the calculation of averages*** | **12** | **12** | **12** | **12** |
| Liquidity Buffer | 977 | 998 | 912 | 938 |
| Total Net Cash Outflows | 398 | 402 | 354 | 365 |
| **Liquidity Coverage Ratio (%)** | **297%** | **299%** | **305%** | **300%** |

*For the purpose of Pillar 3, the values are calculated as the simple average of the month-end observations over the preceding twelve months. The HQLA and LCR reported as at 31 December 2020 in CSUK Annual Report represents the spot value as of the reporting date.

# Market Risk

## Overview

Market risk arises from potential adverse changes in interest rates, foreign currency exchange rates, equity prices, commodity prices and other relevant parameters, such as market volatilities. CS group defines its market risk as potential changes in fair values of financial instruments in response to market movements. A typical transaction may be exposed to a number of different market risks.

CS group has policies and processes in place to ensure that market risk is captured, accurately modelled and reported, and effectively managed. Furthermore, CSUK adopts these policies from a legal entity perspective. Trading and non-trading portfolios are managed at various organisational levels, from the overall risk positions at CS group level down to specific portfolios. CS group uses market risk measurement and management methods in line with industry standards. Measurement tools are used for internal market risk management, internal market risk reporting and external disclosure purposes. The principal measurement methodologies are Value at risk ('VaR') and scenario analysis. The risk management techniques and policies are regularly reviewed to ensure they remain appropriate.

CS group's VaR model is subject to internal governance including model validation independent from model developers. Validation includes identifying and testing the model's assumptions and limitations, investigating its performance through historical and potential future stress events, and testing that the live implementation of the model behaves as intended.

## Exposure to Market Risk

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

- Structural interest rate and structural FX risk arise primarily from the loan and deposit books (a core value proposition and service offering). CSUK will avoid carrying material open interest or FX rate positions;
- FX risk arising from trades undertaken on behalf of clients. CSUK will aim to ensure net FX risks are 'flat' or matched currency positions resulting in minimal net daily profit and loss; and
- Exposure to settlement risk arising from trades executed on behalf of clients on a Delivery Versus Payment ('DVP') basis. CSUK's aggregate risk appetite for market risk arising from DVP services is subject to gross notional (oneway) and VaR thresholds, which are quantified in the Risk Appetite and monitored when failed trade levels breach appetite.

Typically CSUK's loan book is GBP denominated, whilst the deposit book is spread across a number of currencies. FX risk arising from this currency mismatch in the Banking Book is managed for CSUK by CS Global Treasury. The mandate given to CS Global Treasury is to run a matched currency book. Currency positions for CSUK are aggregated with currency positions of other CS group entities and, where possible, internally matched before any hedging with external counterparties are undertaken.

## Criteria for Inclusion in the Trading Book

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

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

## Interest Rate Risk in the Banking Book

The interest rate risk exposures in the non-trading positions (synonymously used to the term "Banking Book") mainly arise from retail banking, and related funding activities, with the majority of interest rate risk centrally managed by Treasury centrally on a portfolio basis within approved limits using appropriate hedging instruments.

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

CS group's Board of Directors defines interest rate risk appetite for the Group and its subsidiaries, including CSUK, on an annual basis. Within those limits, the ALM CARMC and CSUK Board of Directors define a risk control cascade.

### Risk Measurement

The risks associated with the non-trading interest rate-sensitive portfolios are measured using a range of tools, including the following key metrics:

- Interest rate sensitivity ('DV01'): Expresses the linear approximation of the impact on a portfolio's present value resulting from a one basis point (0.01%) parallel shift in yield curves, where the approximation tends to be closer to the true change in the portfolio's present value for smaller parallel shifts in the yield curve. The DV01 is a transparent and intuitive indicator of linear directional interest rate risk exposure, which does not rely on statistical inference.
- Economic value scenario analysis: Expresses the impact of a pre-defined scenario (e.g. instantaneous changes in interest rates) on a portfolio's fair value. This metric does not rely on statistical inference.

### Monitoring and Review

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

### Fair Value Impact of Change in Interest Rates on Non-Trading Positions (£000s equivalent)

| As at 31 December 2020 | | | | | | |
|---|---|---|---|---|---|---|
| Basis points movement + / (-) | USD | GBP | EUR | CHF | Other | Total |
| 200 | (380.1) | (1,898.1) | (48.3) | (5.1) | 1.5 | (2,330.1) |
| (200) | 122.3 | 496.5 | 5.9 | 0.0 | (1.5) | 623.2 |

# Leverage Ratio

## Overview

CSUK is required to monitor and disclose its leverage ratio in accordance with the CRR definition, as amended by the European Commission Leverage Ratio Delegated Act.

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

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

## Factors impacting on Leverage Ratio during the Period

CSUK's leverage ratio increased to 8.07% as at 31 December 2020 from 7.74% as at 31 December 2019.

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

| As at 31 December 2020 | |
|---|---|
| **Total assets as per published financial statements** | 3,654,695 |
| Adjustments for derivative financial instruments | 11,618 |
| Adjustment for off-balance sheet items | 20,858 |
| Other adjustments | (27,423) |
| **(i) Total On-balance Sheet Exposures (excluding Derivatives and SFTs)** | **3,659,748** |

## Leverage Ratio Common Disclosure (£000s)

| As at 31 December 2020 | |
|---|---|
| *On-balance sheet exposures* | |
| On-balance sheet items (excluding derivatives and SFTs, but including collateral) | 2,739,400 |
| Asset amounts deducted in determining Tier 1 capital | (27,423) |
| **(i) Total On-balance Sheet Exposures (excluding Derivatives and SFTs)** | **2,711,978** |
| *Derivative exposures* | |
| Replacement cost associated with all derivatives transactions | 30,300 |
| Add-on amounts for PFE associated with all derivatives transactions | 16,216 |
| **(ii) Total Derivative Exposures** | **46,516** |
| *Securities financing transaction exposures* | |
| Gross SFT assets, after adjusting for sales accounting transactions | 880,396 |
| **(iii) Total Securities Financing Transaction Exposures** | **880,396** |
| *Off-balance sheet exposures* | |
| Off-balance sheet exposures at gross notional amount | 40,409 |
| Adjustments for conversion to credit equivalent amounts | (19,551) |
| **(iv) Total Off-balance Sheet Exposures** | **20,858** |
| **Tier 1 Capital** | **295,460** |
| **Total Exposures ((i) - (iv))** | **3,659,748** |
| **Leverage Ratio** | **8.07%** |

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

| As at 31 December 2020 | |
|---|---|
| **Total on-balance sheet exposures (excluding derivatives, SFTs, and exempted exposures), of which:** | 2,739,400 |
| **Trading Book exposures** | - |
| **Banking Book exposures, of which:** | 2,739,400 |
| Exposures treated as sovereigns | 4,847 |
| Institutions | 690,279 |
| Secured by mortgages of immovable properties | 1,496,454 |

| | |
|---|---|
| Retail exposures | 37,957 |
| Corporate | 155,295 |
| Exposures in default | 192,613 |
| Items associated with particularly high risk | - |
| Other exposures (eg equity, securitisations, and other non-credit obligation assets) | 161,956 |

# Scenario Analysis

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

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

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

# Asset Encumbrance

## Overview

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

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

| As at 31 December 2020 | Carrying amount of encumbered assets | Fair value of encumbered assets | Carrying amount of unencumbered assets | Fair value of unencumbered assets |
|---|---|---|---|---|
| *Assets of the reporting institution* | 36,932 | | 3,560,464 | |
| Equity instruments | - | | - | |
| Debt securities | - | - | - | - |
| of which: covered bonds | - | - | - | - |
| of which: asset-backed securities | - | - | - | - |
| of which: issued by general governments | - | - | - | - |
| of which: issued by financial corporations | - | - | - | - |
| of which: issued by non-financial corporations | - | - | - | - |
| Other assets | 36,932 | | 3,560,464 | |
| of which: Cash collateral | 32,442 | | - | |
| of which: Securities purchased | - | | 901,089 | |
| of which: Net loans | - | | 1,858,056 | |
| of which: Cash and due from banks | - | | 442,021 | |

### Collateral Received (£000s)

| As at 31 December 2020 | Fair value of encumbered collateral received or own debt securities issued | Fair value of collateral received or own debt securities issued available for encumbrance |
|---|---|---|
| Collateral received by the reporting institution | - | 956,193 |
| Loans on demand | - | - |
| Equity instruments | - | - |
| Debt securities | - | 956,193 |
| of which: covered bonds | - | - |
| of which: asset-backed securities | - | - |
| of which: issued by general governments | - | 950,144 |
| of which: issued by financial corporations | - | 3,218 |
| of which: issued by non-financial corporations | - | - |
| Loans and advances other than loans on demand | - | - |
| Other collateral received | - | - |
| of which: | - | - |
| Own debt securities issued other than own covered bonds or ABSs | | - |
| TOTAL ASSETS, COLLATERAL RECEIVED AND OWN DEBT SECURITIES ISSUED | - | |

# Appendix 1: Capital Instruments' Main Features

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

# Appendix 2: Key Risks, Risk Mitigation and Core Metrics

As at 31 December 2020

| Key Risk | Risk Description | Risk Mitigation | Indicative Core Metrics Monitored |
|---|---|---|---|
| **Credit Risk** | Credit risk is the risk of financial loss arising as a result of a borrower or counterparty failing to meet its financial obligations or as a result of deterioration in the credit quality of the borrower or counterparty and/or impairment of collateral. | ■ The credit risk management framework covers seven core components.<br>■ Collateral as security in the form of an asset or third-party obligation that either substitutes the borrower default risk or improves recoveries in the event of default.<br>■ CSUK also transacts under International Swaps and Derivatives Association ('ISDA') Master Agreements which provide for the net settlement of all transactions under the agreement. CSUK only deposits cash with other CS group entities.<br>■ Country limits are approved annually for emerging markets.<br>■ CSUK maintains capital adequacy in excess of regulatory requirements. | ■ Sector concentration<br>■ Counterparty concentration<br>■ Unsecured facilities<br>■ Impaired loans |
| **Operational Risk** | The risk of a loss resulting from inadequate or failed internal processes, people and systems or from external events. This includes risks arising from the failure to comply with laws, regulations, rules or market standards that may have a negative effect on our franchise and clients we serve. | ■ Effective management of non-financial risk requires a common framework that focuses on the early identification, recording, assessment, monitoring, prevention and mitigation of non-financial risks, as well as timely and meaningful management reporting.<br>■ The Enterprise Risk and Control Framework ('ERCF') incorporates operational risk with compliance related components to provide coverage for non-financial risks, including cyber, compliance, financial crime and conduct risks. The ERCF provides a structured approach to managing operational and compliance risks. It seeks to apply consistent standards and techniques for evaluating risks across the CS group while providing individual businesses with sufficient flexibility to tailor specific components to their own needs.<br>■ Bank Operational Risk Oversight, the CSUK Operational Risk Appetite Framework and Business Continuity Management are aligned to CS group policies.<br>■ Businesses areas take responsibility for their operational risk management and are supported by operational risk teams who are responsible for the implementation of the operational risk management framework, methodologies and reporting.<br>■ CS group-wide tools are employed including risk appetite tolerances, reporting of 'top' operational risks; utilising operational risk registers; risk and control indicators; risk and | ■ Internal fraud<br>■ External fraud<br>■ Employment practice<br>■ Clients, products and business practices<br>■ Business and system disruption<br>■ Damage to physical assets |

| Key Risk | Risk Description | Risk Mitigation | Indicative Core Metrics Monitored |
|---|---|---|---|
| | | control self-assessments ('RCSA'); analysis of internal operational risk incident data; review of external loss data; operational risk scenario development. | |
| **Conduct Risk** | The risk that improper behaviour or judgement by employees and third parties result in negative financial,non-financial, or reputational impacts to our clients,employees, the Bank or the integrity of the markets. | ■ Primary responsibility lies with CSUK's senior business line managers (first Line of Defence). CSUK participates in the Credit Suisse London Conduct Risk Committee ('LCRC').<br>■ Code of Conduct including Credit Suise Cultural Values (IMPACT statements)<br>■ Global policies accompanied by local supplements and procedures and processes<br>■ The LCRC will consider CSUK's adoption of compliance and other policies and training, and the use of employee training sessions to mitigate Conduct Risk.<br>■ Limit and control risk of adverse outcomes through policies, procedures and training | ■ Client Protection<br>■ Client Fairness<br>■ Bank Stewardship<br>■ Market Integrity<br>■ Employee Protection |
| **Liquidity Risk** | The risk that a bank is unable to fund assets and meet obligations as they fall due under both normal and stressed market conditions. | ■ Liquidity, funding and the management of FX positions are centrally managed by CS group Treasury. Oversight provided by the ALM CARMC with ultimate responsibility of CSUK's Board of Directors.<br>■ Funding is a component of a conservative asset-liability management ('ALM') strategy aimed at maintaining a funding structure with long-term stable funding sources.<br>■ A liquidity buffer is also maintained to sustain operations for extended periods of time in the event of systemic and other crisis.<br>■ CSUK would activate its Contingency Funding Plan ('CFP') in the event of such a crisis. | ■ Net stable funding ratio ('NSFR')<br>■ Liquidity Coverage Ratio ('LCR')<br>■ CS Internal Barometer 2.0 model<br>■ Currency Coverage Ratio |
| **Technology and Cyber Risk** | The risk of failure or malfunction of storage, server or other Technology assets impacting business operability and access to information, and leading to harm or loss, whether caused by: an IT failure, security breaches, unauthorized access, loss or destruction of data, unavailability of service, computer viruses or other events that could have an adverse security impact. | ■ Technology risks for CSUK are managed through the Bank's technology risk management programme, business continuity management plan and business contingency and resiliency plans.<br>■ Technology risks are included as part of the overall ERCF assessment for CSUK, based upon a forward-looking approach focusing on the most significant risks in terms of potential impact and likelihood.<br>■ CSUK is also part of the enterprise-wide Cybersecurity Strategy to provide strategic guidance to achieve an optimised end-to-end security and risk competence that enables a secure and innovative business environment, aligned with the Bank's risk appetite. | ■ Business Continuity and Business Contingency plans review<br>■ Technonogy metrics including System availability, Data loss (internal and external), data integrity, third party technology and emerging technology) |

| Key Risk | Risk Description | Risk Mitigation | Indicative Core Metrics Monitored |
|---|---|---|---|
| **Reputational Risk** | The risk arising from negative perception on the part of customers, counterparties, shareholders, investors or regulators that can adversely affect CSUK's ability to maintain existing (or establish new) business relationships and continued access to sources of funding. | ■ The Reputational Risk and Sustainability Committee sets policies, and reviews processes and significant cases relating to reputational risk.<br>■ Business proposals are submitted to CS group's Reputational Risk Review Process which includes submitting a proposal to CS Reputational Risk Approvers who are independent of the business division. | ■ Approved/declined applications for higher risk products / services in period<br>■ Monitoring of Investor Visa clients |
| **Credit Cycle** | A credit cycle describes the expansion and contraction of access to credit by borrowers over time. When the economy passes through its peak, client assets and investments could decrease in value, or decrease in income, therefore reducing the client's ability to repay their mortgage loans. Clients may also be lessmotivated to use Lombard facilities against their marketable securities portfolio for fear of margin calls. With a higher risk of borrower default, banks reduce their risk appetite and raisesinterest rates with a contraction in the availability of credit. Entryinto a contraction cycle, or a prolonged contraction cycle, may impact the Bank's credit book quality and income steam. | ■ CSUK took action to reduce its risk appetite before the recent COVID-19 driven contraction in the London real estate market and implemented a reduction in maximum Loan-to-Value ('LTV') and tightened its lending policy to mitigate this risk. This conservative approach puts us in a strong position to start growing the loan book from 2021 onward. | ■ Loan to Value ratio |
| **Replacement of interbank offered rates** | A major structural change in global financial markets is now in progress. Global regulators are asking the market to replace certain interbank offered rate benchmarks ('IBORs') with alternative reference rates ('ARRs') by the end of 2021. Industry Groups comprising public and private sector representatives across jurisdictions have identified recommended replacement benchmarks, established milestones for the transition and created forums for industry participants to provide feedback and discuss best practices. | ■ CSUK has identified a number of assets and liabilities linked to IBOR benchmarks that require transition to ARRs and is participating in the Group-wide IBOR Transition Program to manage a smooth and orderly transition, whilst looking to proactively minimise the impact on its clients and on the risks the Bank takes. Transition to ARRs is planned for Q2 and Q3 2021. | ■ Project deadlines and milestones |
| **Disruption due to COVID-19** | The ongoing COVID-19 pandemic continues to cause disruption for the BAU activities of the Bank. The pandemic has resulted in significant market volatility and a 19.8% contraction in UK GDP in Q2 2020. While not technically a recession, owing to the strong bounce back in Q3, this was a massive contraction in economic output. This risk of a second downward leg and of recession remains material. | ■ CSUK has a well-established process for Crisis Management and ensures regular communication with its employees. CSUK invoked its business continuity plans at the outset of the pandemic with employee safety paramount.<br>■ The advice CSUK is giving to clients and invitees to Credit Suisse events is aligned with the guidance from the World Health Organisation, plus national governments and regulators. CSUK continued to serve clients in a safe, compliant and efficient manner throughout the year. | ■ Full range of risk metrics monitored on weekly basis |

| Key Risk | Risk Description | Risk Mitigation | Indicative Core Metrics Monitored |
|---|---|---|---|
| | | ■ Through its contingency plans, CSUK has put in place various response measures in order to ensure the continuity of its operations and protect the health and safety of its employees, including travel restrictions, a quarantine protocol, guidelines for client meetings and employee gatherings and ensured that all employees are provided with the means to work remotely.<br>■ CSUK holds buffers in accordance with the internal stress methodology as well as regulatory requirements (refer to the Risk Management section). Market events in the first quarter of 2020 increased capital and liquidity usage but CSUK remained well in excess of all internal capital and liquidity requirements. CSUK considers its buffers to be adequate for the ongoing pandemic. | |
| **Major system upgrade** | CSUK is participating in a CSG led program to upgrade front-toback banking systems across legal entities in the International Wealth Management Division, scheduled to complete in 2022.<br><br>The new systems will deliver consistency of process across the Global division, and aims to further strengthen the control environment.<br><br>Key risks associated with this program include material delays, misspecification of requirements, errors in build or development, and budget overruns.<br><br>Consequential risks may emerge from any program or system failings, including to client outcomes, Credit Suisse reputation, regulatory submissions and ultimately business strategy. | ■ The upgrade program is being led by a dedicated program management office, taking a structured approach to delivery.<br>■ A clear governance model for the program has been put in place, with detailed working groups reporting up to senior oversight committees, who meet on a regular basis.<br>■ In addition, the CRO and CCO have set up a joint second line of defense risk review board, providing a forum where the second line of defence can review progress and challenge the program management office on their assumptions and approach.<br>■ End user and second line of defence sign off is required at key points in the process, and overall approval to go live will come form the Board of Directors. | ■ Project deadlines and milestone<br>■ Potential impact on entity of program failure |
| **Climate Risk** | Climate-related risks result from both transitional and physical effects of climate change. This may create a loss of financial (including revenues, expenditures, assets and liabilities, capital and financing), operational and reputational value to the Bank either on a direct or an indirect basis. | ■ Climate-related risks are now included in the CS group-wide risk taxonomy and Reputational Risk Review Process.<br>■ CSUK's primary exposure to climate change is through the physical risks associated with its portfolio of commercial and residential real estate loans.<br>■ CSUK would be able to react swiftly to emerging climate-related risks; facilities, secured against companies that are impacted by climate change can be managed by adjusting approved LTVs.<br>■ Scenario analysis: At a Group-level, CS is testing approaches to scenario analysis. | ■ Monitoring Risk taxonomy<br>■ Reputation Risk Review<br>■ Scenario analysis |

# Appendix 3: Directorships

CSUK's Board Members hold the following number of directorships as at 01 March 2021:

| Name | Gender | Independent | Appointment Date* | Total Number of Directorships |
|---|---|---|---|---|
| Christian Berchem | M | | 12/09/2017 | 1 |
| Stefanie Blaettler | F | | 02/12/2020 | 1 |
| Maureen Erasmus | F | Independent | 24/10/2017 | 4 |
| Ian Michael Hale | M | | 08/12/2014 | 1 |
| Caron Hughes | F | | 04/06/2020 | 1 |
| Alexandra Kinney | F | Independent | 29/11/2017 | 3 |
| Richard Metcalf | M | Independent | 09/09/2020 | 1 |
| Philippe Theytaz | M | Independent | 14/10/2020 | 1 |

*Non-executive Directors are typically appointed for a two-year term, and the non-executive Chair a three-year term. The Board may invite a Director to serve additional periods. All terms are subject to review by the Nomination Committee. The Board and Board Committees are subject to an annual Board Evaluation.

Notes:

- Michael Bussey rsigned on 31 January 2020
- Caron Hughes appointed on 4 June 2020
- Jason Forrester resigned on 31 August 2020
- Richard Metcalf appointed on 9 September 2020
- Philippe Theytaz appointed on 14 October 2020
- Urs Rüst resigned on 30 November 2020
- Stefanie Blättler appointed on 2 December 2020
- Alistair Conner resigned on 1 February 2021

# Appendix 4: List of Abbreviations and Glossary

| Term | Definition |
|---|---|
| **B** | |
| Banking Book | Classification of assets outside the definition of Trading Book (also referred to as the 'Non-Trading Book'). |
| Back-testing | A technique (typically applied to trading strategies) where a specific strategy is applied to historical data to assess the effectiveness of that strategy. |
| Basel II | The capital adequacy framework issued by the Basel Committee on Banking Supervision (June 2006). From 1 January 2007, The European Union's Capital Requirements Directive ('CRD') was effective. The CRD was derived from the Basel II Accord ('Basel II'). |
| Basel III | Basel II was subsequently replaced in the EU, from 1 January 2014, by the Capital Requirements Regulation (CRR) and the Capital Requirements Directive (collectively 'CRD IV'). Basel III requirements will be fully implemented by 1 January 2019. |
| **C** | |
| CCyB | *Countercyclical Capital Buffer*: prescribed under Basel III and CRD IV and aims to ensure that capital requirements mitigate potential future losses arising from excess credit growth and hence increased system-wide risk. |
| CCRMTM | *Counterparty Credit Risk Mark to Market method.* A regulatory prescribed method for calculating exposure values in respect of counterparty credit risk. |
| CET1 | *Common Equity Tier 1:* the highest quality level of regulatory capital prescribed under Basel III (and by CRD IV in the EU). |
| CET1 ratio | CET1 expressed as a percentage of RWA. |
| CRD | *Capital Requirements Directive*: EU legislation implementing Basel III (and previously Basel II) in the EU. |
| CRR | *Capital Requirements Regulation*: EU legislation implementing Basel III in the EU. |
| CVA | *Credit Valuation Adjustment:* a capital charge under Basel III (and 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. |
| **D** | |
| DVP | A securities industry settlement procedure in which the buyer's payment for securities is due at the time of delivery. Delivery versus payment (DVP) is a settlement system that stipulates that cash payment must be made prior to or simultaneously with the delivery of the security. This form of settlement applies where the client custodies cash / securities external to CSUK, but executes market trades via CSUK. |
| **E** | |
| EaR | Earnings at Risk. A measure of the potential change in Net Interest Income (NII) due to an adverse interest rate movement over a predefined time horizon. |
| Exposure value | The maximum loss that a financial institution might suffer if a borrower, counterparty or group fails to meet their obligations or if assets and off-balance sheet positions have to be realised. |
| EBITDA | *Earnings before interest, taxation, depreciation and amortisation*. |
| **F** | |
| FCA | *Financial Conduct Authority* - The UK regulator responsible for conduct of business regulation and supervision. |
| **H** | |
| Haircut | A discount applied to reflect the amount at which an asset can be realised. |
| HQLA | *High Quality Liquid Assets:* consists of cash or assets that can be easily converted into cash at little or no loss of value in private markets. |
| **I** | |
| ICAAP | *Internal Capital Adequacy Assessment Process*: a risk-based assessment of the level of regulatory capital to be held by a bank or firm. This may exceed the Pillar 1 capital requirements. |
| IFRS | *International Financial Reporting Standards*. |
| ILAAP | *Internal Liquidity Adequacy Assessment Process:* involves identification, measurement, management and monitoring of liquidity required to be implemented in accordance with the provisions in Article 86 of CRD IV. |
| ISDA | *International Swaps and Derivatives Association*. |
| ISDA master agreement | Standardised contract developed by ISDA to facilitate bilateral derivatives trading. |

| Term | Definition |
|---|---|
| **L** | |
| LCR | *Liquidity coverage ratio:* refers to the proportion of highly liquid assets held by financial institutions, to ensure their ongoing ability to meet short-term obligations. |
| Leverage ratio | A calculation prescribed under Basel III (and CRD IV) to measure the ratio of total exposures to available Tier 1 capital. |
| LGD | *Loss given Default:* the estimated ratio of loss to the amount outstanding at default (EAD) as a result of any counterparty default. |
| **K** | |
| KYC | *Know Your Client*. The information that a bank collects to correctly identify clients and their source of wealth to prevent criminals and terrorists from using financial products or services to store or move the proceeds of crime. |
| **M** | |
| Master netting agreement | An agreement between two counterparties who have multiple contracts with each other that provides for the net settlement of all contracts in the event of default on, or termination of any one contract. |
| MiFID II | *Markets in Financial Instruments Directive.* MiFID II directive together with Markets in Financial Instruments Regulation (MiFIR) and commonly referred to as MiFID II is EU legislative framework to regulate financial markets in the region by creaing a single market for investment services and ensure harmonised protection for investors in financial instruments. |
| Minimum capital requirements | The minimum amount Pillar 1 requirements to be held for credit, market and operational risk. |
| **N** | |
| Netting | Netting is a means to reduce on- and off- balance sheet credit risk exposures by offsetting the value of any contracts or other positions held with the same counterparty. |
| **O** | |
| OTC | *Over-the-counter*. A security or other financial instrument not traded on a formal exchange. |
| **P** | |
| PD | *Probability of Default:* is the probability of an obligor defaulting within a one-year horizon. |
| PFE | *Potential Future Credit Exposure:* is the maximum expected credit exposure over a specified period of time. |
| Pillar 1 | Minimum regulatory capital requirements to be held by a bank or investment firm as prescribed by Basel III (and CRD IV). |
| Pillar 2 | Regulator imposed risk-based capital requirements to be held in excess of Pillar 1. |
| Pillar 3 | CRD IV prescribed capital, risk and remuneration disclosure requirements. |
| PRA | *Prudential Regulation Authority* - The UK regulator responsible for the prudential regulation and supervision of banks, building societies, credit unions, insurers and major investment firms |
| **R** | |
| RCSA | *Risk and Control Self Assessment:* is a process through which operational risks and the effectiveness of controls are assessed and examined. |
| Reverse repurchase agreement | An agreement that allows a borrower to use a financial security as collateral for a cash loan. |
| RWA | *Risk-weighted asset*: derived by assigning risk weights to an exposure value. |
| **S** | |
| SAR | *Suspicious activity report.* An SAR is a piece of information alerting law enforcement agencies (such as the National Crime Agency) that a certain customer activity is in some way suspicious and may indicate money laundering or terrorist financing |
| SFT | *Securities Financing Transaction*: lending or borrowing of securities (or other financial instruments), a repurchase or reverse repurchase transaction, or a buy-sell back or sell-buy back transaction. |
| SREP | *Supervisory Review and Evaluation Process*. |
| Stressed VaR | A market risk capital charge derived from potential market movements applied over a continuous one-year period of stress to a Trading Book portfolio. |
| **T** | |
| Tier 1 capital | A component of regulatory capital, comprising CET1 and Additional Tier 1 capital as defined by Basel III and the CRD IV. |
| Tier 1 capital ratio | The ratio of Tier 1 capital to total RWA. |
| Tier 2 capital | A lower quality of capital (with respect to 'loss absorbency') also known as 'gone concern' capital. |

| Term | Definition |
|---|---|
| TLRM | *Treasury and Liquidity Risk Management* |
| Trading Book | Positions held with intent to trade or to hedge other items in the Trading Book. |
| **V** | |
| VaR | *Value-at-risk*: loss estimate from adverse market movements over a specified time horizon and confidence level. |

# Cautionary Statement Regarding Forward-looking Information

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

- our plans, objectives or goals;
- our future economic performance or prospects;
- the potential effect on our future performance of certain contingencies; and
- assumptions underlying any such statements.

Words such as “believes,” “anticipates,” “expects,” “intends” and “plans” and similar expressions are intended to identify forward-looking statements but are not the exclusive means of identifying such statements. We do not intend to update these forward-looking statements except as may be required by applicable securities laws.

By their very nature, forward-looking statements involve inherent risks and uncertainties, both general and specific, and risks exist that predictions, forecasts, projections and other outcomes described or implied in forward-looking statements will not be achieved. We caution you that a number of important factors could cause results to differ materially from the plans, objectives, expectations, estimates and intentions expressed in such forward-looking statements.

These factors include:

- the ability to maintain sufficient liquidity and access capital markets;
- market volatility and interest rate fluctuations and developments affecting interest rate levels;
- the strength of the global economy in general and the strength of the economies of the countries in which we conduct our operations, in particular the risk of continued slow economic recovery or downturn in the US or other developed countries or in emerging markets, the economic disruptions caused by pandemic COVID-19 in 2021 and beyond;
- the direct and indirect impacts of deterioration or slow recovery in residential and commercial real estate markets;
- adverse rating actions by credit rating agencies in respect of us, sovereign issuers, structured credit products or other credit-related exposures;
- the ability to achieve our strategic objectives, including cost efficiency, net new asset, pre-tax income/(loss), capital ratios and return on regulatory capital, leverage exposure threshold, risk-weighted assets threshold and other targets and ambitions;
- the ability of counterparties to meet their obligations to us;
- the effects of, and changes in, fiscal, monetary, exchange rate, trade and tax policies, as well as currency fluctuations;
- political and social developments, including war, civil unrest or terrorist activity;
- the possibility of foreign exchange controls, expropriation, nationalization or confiscation of assets in countries in which we conduct our operations;
- operational factors such as systems failure, human error, or the failure to implement procedures properly;
- the risk of cyberattacks on our business or operations;
- actions taken by regulators with respect to our business and practices and possible resulting changes to our business organization, practices and policies in countries in which we conduct our operations;
- the effects of changes in laws, regulations or accounting policies or practices in countries in which we conduct our operations;
- the potential effects of proposed changes in our legal entity structure;
- competition or changes in our competitive position in geographic and business areas in which we conduct our operations;
- the ability to retain and recruit qualified personnel;
- the ability to maintain our reputation and promote our brand;
- the ability to increase market share and control expenses;
- technological changes;
- the timely development and acceptance of our new products and services and the perceived overall value of these products and services by users;
- acquisitions, including the ability to integrate acquired businesses successfully, and divestitures, including the ability to sell non-core assets;
- the adverse resolution of litigation, regulatory proceedings, and other contingencies; and
- other unforeseen or unexpected events and our success at managing these and the risks involved in the foregoing.

The foregoing list of important factors is not exclusive.

**CREDIT SUISSE (UK) LIMITED**
Five Cabot Square
London, E14 4QR
**www.credit-suisse.com**