

Basel II

Pillar 3 – UK disclosures

2010

Basel II – Pillar 3

UK disclosures

Introduction

This document contains the Pillar 3 disclosures required under Basel II in relation to the following UK entities within the Credit Suisse group:

- Credit Suisse International;
- Credit Suisse Securities (Europe) Limited; and
- Credit Suisse (UK) Limited.

This document should be read in conjunction with the annual financial statements of those entities, together with the Credit Suisse Pillar 3 disclosure document and the Credit Suisse Annual Report.

Also contained in this report are the disclosures required by FSA's Policy Statement PS10/21 "Implementing CRD3 requirements on the disclosure of remuneration" in relation to the following:

- Credit Suisse International;
- Credit Suisse Securities (Europe) Limited;
- Credit Suisse (UK) Limited; and
- Credit Suisse Asset Management Limited.

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Credit Suisse International

Under a waiver agreed with the FSA, certain of the Pillar 3 disclosures required by the UK implementation of Basel II need not be made by Credit Suisse International ('CSI') as a stand-alone entity on the basis that they are included in the comparable disclosures provided on a consolidated basis by Credit Suisse group (these can be found at www.credit-suisse.com). Those Pillar 3 disclosures required under FSA rules that are not covered by the Credit Suisse group disclosures are set out below, together with additional information that provides a wider context.

The following table sets out details of CSI's regulatory capital resources:

	31 December 2010	31 December 2009
Capital Resources (USD million)		(restated)
Tier One capital resources, comprising:	11,023	10,362
Permanent share capital	4,390	3,890
Share premium	1,016	4,868
Reserves	707	(3,495)
Perpetual non-cumulative preference shares	5,235	5,235
Regulatory deductions (intangible assets)	(325)	(136)
Tier Two capital resources, comprising:	9,697	9,373
Upper Tier 2 – perpetual subordinated debt	4,186	4,192
Lower Tier 2 – long term subordinated debt	5,985	6,057
Excess Tier 2 capital	(474)	(876)
Tiers One and Two	20,720	19,735
Deductions from Tiers One and Two, comprising	(1,252)	(1,469)
Excess of expected loss over provisions	(1,097)	(1,318)
Other deductions	(155)	(151)
Tier Three capital resources, comprising:	474	876
Excess Tier Two capital	474	876
Capital Resources	19,942	19,142

The following table sets out details of CSI's Pillar 1 capital resources requirements:

	31 December 2010	31 December 2009
Capital Resources Requirements (USD million)		
Trading Book market risk, comprising:	2,762	2,107
Capital requirement calculated using Value at Risk (VaR) model	2,513	2,039
Interest rate risk calculated under standard rules	62	60
Foreign exchange risk calculated under standard rules	53	8
Other market risk calculated under standard rules	134	0
Other capital resources requirements		
Counterparty risk – Trading Book	2,412	2,520
Counterparty risk – Banking Book	2,055	2,157
Concentration risk	280	620
Operational risk (Basic Indicator Approach)	312	333
Pillar 1 Capital Resources Requirements	7,821	7,737

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Credit Suisse Securities (Europe) Limited

Under a waiver agreed with the FSA, certain of the Pillar 3 disclosures required by the UK implementation of Basel II need not be made by Credit Suisse Securities (Europe) Limited ('CSSEL') as a stand-alone entity on the basis that they are included in the comparable disclosures provided on a consolidated basis by Credit Suisse group (these can be found at www.credit-suisse.com). Those Pillar 3 disclosures required under FSA rules that are not covered by the Credit Suisse group disclosures are set out below, together with additional information that provides a wider context.

The following table sets out details of CSSEL's regulatory capital resources:

	31 December 2010	31 December 2009
Capital Resources (USD million)		(restated)
Tier One capital resources, comprising:	3,991	4,786
Permanent share capital	3,527	3,527
Reserves	471	1,267
Regulatory deductions (intangible assets)	(7)	(8)
Tier Two capital resources, comprising:	3,991	2,383
Upper Tier 2 – perpetual subordinated debt	2,400	900
Upper Tier 2 – revaluation reserve	25	0
Lower Tier 2 – long term subordinated debt	1,983	1,483
Excess Tier 2 capital	(417)	0
Tiers One and Two	7,982	7,169
Deductions from Tiers One and Two, comprising	(37)	(48)
Excess of expected loss over provisions	(37)	(48)
Tier Three capital resources, comprising:	417	0
Excess Tier Two capital	417	0
Deductions from total capital	(1,221)	(1,300)
Capital Resources	7,141	5,821

The following table sets out details of CSSEL's Pillar 1 capital resources requirements:

	31 December 2010	31 December 2009
Capital Resources Requirements (USD million)		
Trading Book market risk, comprising:	1,520	812
Capital requirement calculated using Value at Risk (VaR) model	1,248	756
Foreign exchange risk calculated under standard rules	72	56
Other market risk calculated under standard rules	200	0
Other capital resources requirements		
Counterparty risk – Trading Book	499	471
Counterparty risk – Banking Book	194	190
Concentration risk	706	406
Operational risk (Basic Indicator Approach)	512	423
Pillar 1 Capital Resources Requirements	3,431	2,302

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Credit Suisse (UK) Limited

The capital adequacy and capital resources of Credit Suisse (UK) Limited ('CSUK' or the 'Bank') are managed and monitored based on practices developed by the Basel Committee on Banking Supervision (the 'Basel Committee') and governed by European Union directives. These directives are implemented in the UK by the FSA and incorporated within its prudential sourcebooks for banks and investment firms.

Capital Resources

Regulatory capital resources comprise a number of 'tiers'. Tier 1 capital principally comprises shareholders' equity. This is supplemented by Tier 2 and Tier 3 capital, which consist mainly of subordinated debt instruments. Total capital equals the sum of these, less deductions for such items as investments in non-consolidated subsidiaries.

CSUK's overall capital needs are continually reviewed to ensure that its capital base can appropriately support the anticipated needs of its businesses. The capital management framework at the Credit Suisse group is designed to ensure that capital resources are sufficient to support the underlying risks of the business activity, to meet the objectives of management and to meet the requirements of regulators, rating agencies and market participants.

Under the Basel Committee guidelines, an institution must have a ratio of total eligible capital to aggregate risk-weighted assets of at least 8%, although the FSA requires this ratio to exceed the Individual Capital Guidance ('ICG') determined for each institution. This ratio can also be expressed as a capital coverage ratio, being the ratio of total eligible capital to total capital resources requirements, which must be at least 100%. The capital resources requirements reflect the credit, market and other risks of the institution calculated using methodologies set out by the FSA.

CSUK must at all times monitor and demonstrate compliance with the relevant regulatory capital requirements of the FSA. CSUK has put in place processes and controls to monitor and manage its capital adequacy, and no breaches were reported to the FSA during the year.

The following table sets out details of CSUK's regulatory capital resources:

	31 December 2010	31 December 2009
Capital Resources (GBP thousand)		(restated)
Tier One capital resources, comprising:	76,989	76,288
Permanent share capital	102,300	102,300
Retained earnings	(55,799)	(37,722)
Capital contribution reserve	27,500	8,500
Other reserves	2,988	3,210
Capital Resources	76,989	76,288

Capital Resources Requirements

The following table sets out details of CSUK's regulatory capital resources requirements

	31 December 2010	31 December 2009
Capital Resources Requirements (GBP thousand)		
Counterparty risk – Trading Book	615	397
Counterparty risk – Banking Book	27,912	21,917
Market risk: foreign currency risk	1,295	15
Operational risk (Basic Indicator Approach)	8,114	7,737
Pillar 1 Capital Resources Requirements	37,936	30,066

Credit Risk

CSUK uses the Standardised approach to the calculation of credit risk. CSUK's client base largely comprises individuals, trusts and small corporates. With the exception of balances held with other banks, which are not material, the majority of the Bank's credit exposures are not rated. Where exposures are externally rated, the Bank utilises ratings from Standard and Pooors.

The following table sets out details of CSUK's gross credit exposures by asset class

	Period end	Average during period
Gross credit exposures (GBP thousand)		
Institutions	0	27
Central Governments	12	53
Corporates	27,978	28,063
Retail	25,340	23,002
Secured on real estate property	384,798	253,465
Short term claims on institutions and corporates	84,672	61,734
Other	69,915	51,686
Total as at 31 December 2010	592,715	418,030

The following table sets out a geographical distribution of CSUK's gross credit exposures by asset class

	UK	Other EMEA	Rest of the world	Total
Gross credit exposures (GBP thousand)				
Institutions	0	0	0	0
Central Governments	12	0	0	12
Corporates	0	16,526	11,452	27,978
Retail	10,463	9,759	5,118	25,340
Secured on real estate property	184,154	72,626	128,018	384,798
Short term claims on institutions and corporates	15,331	45,252	24,089	84,672
Other	53,592	14,316	2,007	69,915
Total as at 31 December 2010	263,552	158,479	170,684	592,715

The following table sets out an industry distribution of CSUK's gross credit exposures by asset class

	Individuals and trusts	Corporates	Others	Total
Gross credit exposures (GBP thousand)				
Institutions	0	0	0	0
Central Governments	0	0	12	12
Corporates	0	27,978	0	27,978
Retail	25,340	0	0	25,340
Secured on real estate property	246,153	138,645	0	384,798
Short term claims on institutions and corporates	0	84,672	0	84,672
Other	49,085	0	20,830	69,915
Total as at 31 December 2010	320,578	251,295	20,842	592,715

The following table sets out an analysis by contractual maturity of CSUK's gross credit exposures by asset class

	Within 1 year	Between 1 and 5 years	More than 5 years	Total
Gross credit exposures (GBP thousand)				
Institutions	0	0	0	0
Central Governments	12	0	0	12
Corporates	27,978	0	0	27,978
Retail	25,165	175	0	25,340
Secured on real estate property	88,057	296,741	0	384,798
Short term claims on institutions and corporates	84,672	0	0	84,672
Other	63,178	6,737	0	69,915
Total as at 31 December 2010	289,062	303,653	0	592,715

The following table sets out a counterparty distribution of CSUK's impaired and past due credit exposures, together with provisions and value adjustments

	Impaired exposures	Past due exposures	Provisions and value adjustments
Exposure or provision (GBP thousand)			
Individuals and trusts	928	0	928
Corporates	0	0	0
Total as at 31 December 2010	928	0	928

The following table sets out a geographic distribution of CSUK's impaired and past due credit exposures, together with provisions and value adjustments

	Impaired exposures	Past due exposures	Provisions and value adjustments
Exposure or provision (GBP thousand)			
UK	40	0	40
Other EMEA	888	0	888
Total as at 31 December 2010	928	0	928

The following table sets out changes in provisions and value adjustments during the year

	Provisions	Value adjustments	Total
Provision or value adjustment (GBP thousand)			
Balance at beginning of period	1,197	0	1,197
Amounts charged to income statement	32	0	32
Amounts written off	(240)	0	(240)
Recoveries	(84)	0	(84)
Foreign currency translation (net)	23	0	23
Balance at end of period	928	0	928

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Disclosures relating to remuneration pursuant to BIPRU 11.5.18R

Introduction

These disclosures reflect the requirements of the FSA's Policy Statement PS10/21 "Implementing CRD3 requirements on the disclosure of remuneration" in relation to the following:

- Credit Suisse International;
- Credit Suisse Securities (Europe) Limited;
- Credit Suisse (UK) Limited; and
- Credit Suisse Asset Management Limited.

The required qualitative disclosures (implemented in BIPRU 11.5.18 R (1) to (5)) are set out below. The relevant quantitative disclosures (implemented in BIPRU 11.5.18 R (6) and (7)) are set out in the attached tables.

The Credit Suisse group ('Credit Suisse' or the 'Group') is committed to fair, balanced, performance-oriented compensation practices that align long-term employee and shareholder interests. We believe in rewarding our employees for performing in a way that creates sustainable value for the Group and its shareholders over time.

The Group's objectives are to maintain compensation practices and plans that:

- support a performance culture that is based on merit and differentiates and rewards excellent performance, both in the short and long term, and recognizes our company values;
- enable us to attract and retain employees and motivate them to achieve results with integrity and fairness;
- balance the mix of fixed and variable compensation to appropriately reflect the value and responsibility of the role performed day to day and to influence appropriate behaviours and actions;
- are consistent with and promote effective risk management practices as well as our compliance and control culture;
- foster teamwork and collaboration across the Group;
- take into account the long-term performance of the Group in order to create sustainable value for our shareholders; and
- are reviewed regularly and endorsed by an independent Compensation Committee.

By adopting compensation practices to meet these objectives, Credit Suisse ensures that compensation contributes to the achievement of the Group's wider objectives in a way that does not encourage excessive risk taking or the violation of applicable laws, guidelines and regulations, taking into account the capital position and economic performance of the Group over the long term.

Decision-making process for determining the compensation policy

Credit Suisse has a single global Compensation Committee, which is the supervisory and governing body for compensation policy, practices and plans within the Group. The Compensation Committee's Charter is available on our website at www.credit-suisse.com/governance.

The Compensation Committee consists of not fewer than three independent members of the Board of Directors. The current members of the Compensation Committee are Aziz R.D. Syriani (Chairman),

Robert H. Benmosche, Walter B. Kielholz and Jean Lanier. Details of their experience are also available on our website at www.credit-suisse.com/governance/en/committee_compensation.

The Compensation Committee is assisted in its work by external legal counsel and Johnson Associates, Inc., a global compensation consulting firm, to ensure that our compensation policies and practices remain competitive, are responsive to regulatory developments and in line with our compensation approach. Johnson Associates, Inc. is independent from Credit Suisse management and, in particular, does not provide any other services to the Group besides supporting the Compensation Committee.

The Compensation Committee meets at least four times per year. During 2010 the Compensation Committee focused on further development of the Group's compensation design to ensure compliance with evolving regulations and increase the transparency and understanding of our compensation practices and plans. As part of this process the Compensation Committee developed, approved and communicated a Group-wide compensation policy, including implementation standards. This policy will be subject to annual review by the Compensation Committee to ensure compliance with its practices and procedures. A copy of the current compensation policy is available on the Credit Suisse website at www.credit-suisse.com/compensation.

The Group's control functions are also engaged in the design and periodic review of compensation plans. Multi-discipline project teams design specific long-term plans and certain aspects of policy implementation. The project teams ensure that all aspects of the plan design are tested and critically evaluated before they are put forward to the Compensation Committee for consideration.

Internal audit as part of standard procedure conducts regular reviews of compensation to ensure that compensation policy standards, external regulations and guidelines are adhered to, and that processes for achieving and maintaining balanced incentive compensation arrangements are consistently followed.

Link between pay and performance

The Credit Suisse Group applies a total compensation approach. There are two principal components of total compensation, fixed and variable. Credit Suisse also offers various non-cash benefits (such as pension contributions) in order to ensure its overall reward package is competitive.

The individual mix of fixed and variable compensation varies according to the employee's seniority, business and location. However, Credit Suisse ensures that the fixed component represents a sufficiently high proportion of total compensation to allow the possibility of not paying any variable compensation component. All employees are eligible to be considered for an award of discretionary variable compensation. Such awards are made at the discretion of the Group and vary depending on Group, divisional and individual performance.

Group and divisional performance are primarily taken into account when setting the variable compensation pools at Group and divisional levels. Accruals for the Group's variable compensation pool are made by the Group throughout the year and take into account a multitude of factors, including providing an appropriate risk-adjusted rate of return to shareholders; enhancing the capital position of the Group; supporting a strong risk management and control culture; attracting and retaining employees; and aligning the interests of employees and shareholders. The Board regularly reviews the accruals and related financial information, and makes adjustments at its discretion to ensure that the overall size of the pool is consistent with the Group's compensation principles.

The divisional variable compensation pools are not formula driven, but are subject to adjustments based on performance, the discretion of the CEO and the Compensation Committee. The methodology to determine the initial size of the variable compensation pools varies by division. However, risk is taken into account in determining all divisional compensation pools. The key risk-based financial metric used to determine variable compensation pools of the divisions is economic profit, which is income before taxes reduced by a charge for capital usage. As the compensation expense of the Group can have a material impact on the capital position of the Group, it is therefore factored into the overall capital management framework of the Group.

The initial variable compensation pool for each division is subject to adjustment based on a detailed performance evaluation at the divisional as well as the Group level, taking into account the Group's and the division's key performance indicators and other absolute and relative performance criteria, including performance against peers.

A deduction is also applied to the pool of each division to fund a variable compensation pool for the central "shared services" division and other support functions, with the total being based on the Group-wide performance and qualitative measurements, rather than the performance of the divisions that they support, in order to avoid potential conflicts of interest. The pools may be approved as computed or adjusted, subject to final review by the Compensation Committee and submission to the Board for final approval. In setting the final variable compensation pools, the Compensation Committee also considers discretionary factors, including non-financial metrics related to ethics, risk, compliance and control. Other discretionary factors such as business strategy, overall Group performance and the market and regulatory environment are also taken into account.

Once the variable compensation pools have been set at the Group and divisional levels, each division allocates its pool to business areas, with the same or similar performance metrics, which are in turn allocated to individual managers. Line managers award variable compensation to individual employees based on individual and business performance, subject to the constraints of the pool available. The Group adopts a performance culture that places a strong emphasis on ethical behaviour, risk management and compliance-centred behaviour. To support this culture, the Group uses a comprehensive performance management system, based on two performance ratings: contribution and competency.

Contribution ratings are typically based on objective criteria, such as having achieved budget targets, or having increased market shares, though they are not limited to financial criteria. Competency standards covering ethics, risk and control form an integral part of the performance management system.

With this approach, variable compensation is not formula driven, but based on financial and non-financial metrics including ethics, risk, compliance and control.

Design and structure of the compensation system

As set out above, the Group's total compensation approach is based on two separate components: fixed compensation and variable compensation. The Group operates a group-wide deferral policy, under which a portion of variable compensation is deferred once the level of compensation awarded to an individual exceeds group-wide thresholds. The deferral rate applicable to FSA Remuneration Code Staff ('Code Staff') is reviewed to ensure that the variable compensation awarded to such employees is subject to deferral of at least 40% or 60%, as required by the FSA Remuneration Code.

The Group's primary deferred compensation plan is the Credit Suisse Group AG Master Share Plan. Deferred compensation instruments under the Share Plan are designed to align the interests of employees with the interests of shareholders. The Group seeks to achieve this by providing deferred instruments, the value of which are either tied to the share price performance of the Group, the pre-tax profit of the divisions within the Group or the return-on-equity of the Group.

At least 50% of deferred variable compensation awarded to Remuneration Code Staff is awarded in Credit Suisse equity. The remaining portion of any deferred compensation awarded to Remuneration Code Staff in respect of 2010 was awarded using the Group's cash-based deferred award, referred to as the Adjustable Performance Plan Award (APPA). Awards under the APPA are subject to annual adjustment tied to both the annual pre-tax net income of each division and the annual return-on-equity of the Group. All deferred compensation in respect of 2010, whether made in Credit Suisse equity or under the APPA, vests in equal instalments over four years.

All deferred awards to Remuneration Code Staff ('Code Staff'), both equity and cash-based, are subject to pre-vesting performance adjustment in the circumstances required by the FSA Remuneration Code.

50% of the non-deferred portion of any variable compensation awarded to Remuneration Code Staff is also awarded in Credit Suisse equity. All equity awarded to Remuneration Code Staff is subject to a 6-month post-vesting “retention period”, during which it cannot be sold or transferred.

Members of the Executive Board and members of divisional and regional management committees are also subject to a minimum stock ownership requirement, which requires senior management to maintain a personal ownership stake in the Group. This principle is considered important, because it ties some of the personal assets of the executives to the share price performance of the Group.

The following table sets out aggregate compensation expenditure for Code Staff in 2010 by Division

	Private Banking	Investment Banking	Asset Management	Other (2)	Total
Aggregate Compensation (USD million)					
Aggregate Compensation (1)	5.2	266.9	18.3	50.8	341.2

1. Includes fixed compensation and any discretionary variable incentive awards made to Code Staff relating to the 2010 performance year.
2. Includes all Shared Service functions and Regional Management positions.

The following table sets out compensation expenditure for Code Staff in 2010, split between fixed and variable compensation

	Senior Management	Other Code Staff (1)	Total
Number of Code Staff			
Number of Code Staff	22	51	73
Aggregate Compensation			
Aggregate Compensation (USD million) comprises:	74.0	267.3	341.3
Fixed compensation (2)	13.6	33.2	46.8
Variable compensation (3)	60.4	234.1	294.5
Variable compensation (USD million) comprises:			
■ Cash awards (4)	9.0	25.0	34.0
■ Restricted stock awards (5)	5.7	20.2	25.9
■ Deferred cash-based awards	23.1	96.2	119.3
■ Deferred share-based awards	22.6	92.7	115.3

1. Includes Asset Management Code Staff to whom the rules relating to remuneration structures in 2010 were not applied based on guidance from the FSA.
2. Fixed compensation includes base salaries, any other cash allowances and any pension or benefits outside of policy paid during 2010.
3. Discretionary variable compensation awards made to Code Staff relating to the 2010 performance year. Based on value at date of award.
4. The cash component of variable compensation granted to managing directors in the Investment Banking division is subject to specific restrictions over a two-year period. These cash awards must be repaid, either in part or in full, if claw-back events, such as voluntary termination of employment or termination for cause, occur. For all other Code Staff employees there were no restrictions on the cash component.
5. Restricted stock awards are part of the non-deferred element of the variable compensation and are subject to a six month retention period.

The following table sets out deferred compensation for Code Staff as at 31 December 2010

	Senior Management	Other Code Staff (1)	Total
Deferred compensation (USD million)			
Outstanding vested (1)	20.2	70.2	90.4
Outstanding unvested (2)	27.3	60.8	88.1
Deferred compensation awarded (3)	31.9	131.1	163.0
Deferred compensation paid out (4)	66.9	156.4	223.3
Deferred compensation reduced through performance adjustments in 2010	0	0	0

1. Value of outstanding vested awards not yet delivered to Code Staff on 31 December 2010. Based on a share price as at 31 December 2010.
2. Value of outstanding unvested awards held by Code Staff on 31 December 2010, based on a share price as at 31 December 2010.
3. Value of deferred compensation awarded to Code Staff during 2010, based on a share price as at 31 December 2010.
4. Actual value delivered to Code Staff during 2010 from the vesting of prior years' deferred compensation awards. Based on a share price as at the time of vesting.

The following table sets out new sign-on payments made during 2010 to Code Staff

	Senior Management	Other Code Staff	Total
New sign-on payments (USD million) (1)	0.6	0	0.6
Number of beneficiaries	1	0	1

The following table sets out 2010 severance payments to Code Staff

	Senior Management	Other Code Staff	Total
Severance payments made (USD million)	0	0	0
Number of beneficiaries	0	0	0
Severance payments awarded (USD million)	0	1.1	1.1
Number of beneficiaries	0	2	2
Highest such award to a single person (USD million)	0	0.7	0.7

Note that all values have been converted to USD using the 2010 year end exchange rate, except for values of deferred compensation paid out during 2010, which are converted using the prevailing exchange rate at the time of delivery to the individual Code Staff.