

Credit Suisse (Schweiz) AG



Annual Report

2018

Key metrics

| in / end of | in / end of | | % change |
|---|-------------|---------|----------|
| | 2018 | 2017 | YoY |
| Results (CHF million, except where indicated) | | | |
| Net income from business activities ¹ | 4,655 | 4,438 | 5 |
| Total operating expenses | 2,957 | 3,117 | (5) |
| Net profit | 890 | 514 | 73 |
| Balance sheet metrics (CHF million) | | | |
| Total assets | 222,747 | 222,931 | 0 |
| Mortgage loans | 115,413 | 112,869 | 2 |
| Customer deposits | 165,578 | 164,310 | 1 |
| Total shareholders' equity | 14,537 | 15,347 | (5) |
| Swiss regulatory capital and leverage metrics – Look-through (CHF million, except where indicated) | | | |
| Swiss CET1 capital | 10,753 | 10,454 | 3 |
| Total loss-absorbing capacity (TLAC) | 23,972 | 18,473 | 30 |
| Swiss CET1 ratio (%) | 14.0 | 14.1 | – |
| Swiss CET1 leverage ratio (%) | 4.3 | 4.1 | – |
| TLAC ratio (%) | 31.1 | 25.0 | – |
| TLAC leverage ratio (%) | 9.5 | 7.3 | – |
| Assets under management and net new assets (CHF billion) | | | |
| Assets under management | 529.2 | 545.2 | (2.9) |
| Net new assets | 11.0 | (9.8) | – |
| Number of employees (full-time equivalents) | | | |
| Number of employees | 7,050 | 7,600 | (7) |
| Long-term credit rating | | | |
| Fitch Ratings | A | A | – |
| Standard & Poor's | A | – | – |

Represents standalone financial information of Credit Suisse (Schweiz) AG.

¹ Reflects net income from interest activities, net income from commission and service activities, net income/(loss) from trading activities and fair value option and net income from other ordinary activities.

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Credit Suisse (Schweiz) AG

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For purposes of this report, unless the context otherwise requires, the terms “Credit Suisse” and “the Group” mean Credit Suisse Group AG and its consolidated subsidiaries.

Capital adequacy disclosures for the Group and Credit Suisse (Schweiz) AG are presented in the publications “Pillar 3 and regulatory disclosures – Credit Suisse Group AG” and “Regulatory disclosures – Subsidiaries”, respectively, which are available on Credit Suisse Group’s website credit-suisse.com/regulatorydisclosures.

Publications referenced in this report, whether via website links or otherwise, are not incorporated into this report.

In various tables, use of “–” indicates not meaningful or not applicable.

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Report of the Statutory Auditor

To the General Meeting of Shareholders of Credit Suisse (Schweiz) AG, Zurich

Report of the Statutory Auditor on the Financial Statements

As statutory auditor, we have audited the accompanying financial statements of Credit Suisse (Schweiz) AG, which comprise the balance sheet, income statement, statement of changes in equity and notes for the year ended December 31, 2018.

Board of Directors' Responsibility

The Board of Directors is responsible for the preparation of the financial statements in accordance with the requirements of Swiss law and the Bank's articles of association. This responsibility includes designing, implementing and maintaining an internal control system relevant to the preparation of financial statements that are free from material misstatement, whether due to fraud or error. The Board of Directors is further responsible for selecting and applying appropriate accounting policies and making accounting estimates that are reasonable in the circumstances.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with Swiss law and Swiss Auditing Standards. Those standards require that we plan and perform the audit to obtain reasonable assurance whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers the internal control system relevant to the entity's preparation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control system. An audit also includes evaluating the appropriateness of the accounting policies used and the reasonableness of accounting estimates made, as well as evaluating the overall presentation of the financial statements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements for the year ended December 31, 2018 comply with Swiss law and the Bank's articles of association.



Report on Other Legal Requirements

We confirm that we meet the legal requirements on licensing according to the Auditor Oversight Act (AOA) and independence (article 728 CO and article 11 AOA) and that there are no circumstances incompatible with our independence.

In accordance with article 728a paragraph 1 item 3 CO and Swiss Auditing Standard 890, we confirm that an internal control system exists, which has been designed for the preparation of financial statements according to the instructions of the Board of Directors.

We further confirm that the proposed appropriation of available earnings complies with Swiss law and the Bank's articles of association. We recommend that the financial statements submitted to you be approved.

KPMG AG

Ralph Dicht
Licensed Audit Expert
Auditor in Charge

Nicholas Edmonds
Licensed Audit Expert

Zurich, Switzerland
March 22, 2019

KPMG AG, Badenerstrasse 172, PO Box, CH-8036 Zurich [6]

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Financial statements

Statements of income

| | Note | 2018 | in 2017 |
|--|------|--------------|--------------|
| Statements of income (CHF million) | | | |
| Interest and discount income | | 2,360 | 2,103 |
| Interest and dividend income from trading activities | | 292 | 308 |
| Interest and dividend income from financial investments | | 4 | 3 |
| Interest expense | | (480) | (358) |
| Gross income from interest activities | | 2,176 | 2,056 |
| (Increase)/release of allowance for default risks and losses from interest activities | | (81) | (49) |
| Net income from interest activities | 4 | 2,095 | 2,007 |
| Commission income from securities trading and investment activities | | 1,542 | 1,575 |
| Commission income from lending activities | | 186 | 159 |
| Commission income from other services | | 372 | 411 |
| Commission expense | | (412) | (428) |
| Net income from commission and service activities | | 1,688 | 1,717 |
| Net income/(loss) from trading activities and fair value option | 5 | 177 | 214 |
| Income/(loss) from the disposal of financial investments | | 2 | 12 |
| Income from participations | | 331 | 199 |
| Income from real estate | | 0 | 2 |
| Other ordinary income | | 399 | 388 |
| Other ordinary expenses | | (37) | (101) |
| Net income from other ordinary activities | | 695 | 500 |
| Personnel expenses | 6 | 1,319 | 1,383 |
| General and administrative expenses | 7 | 1,638 | 1,734 |
| Total operating expenses | | 2,957 | 3,117 |
| Impairment of participations, depreciation and amortization of tangible fixed assets and intangible assets | | 753 | 734 |
| Increase/(release) of provisions and other valuation adjustments, and losses | 8 | 53 | 32 |
| Operating profit | | 892 | 555 |
| Extraordinary income | 8 | 71 | 0 |
| Taxes | 9 | (73) | (41) |
| Net profit | | 890 | 514 |

Balance sheets

| | Note | 2018 | end of 2017 |
|--|------|----------------|----------------|
| Assets (CHF million) | | | |
| Cash and other liquid assets | | 43,443 | 35,803 |
| Due from banks | | 14,047 | 18,598 |
| Securities borrowing and reverse repurchase agreements | 10 | 10,007 | 12,934 |
| Due from customers | 11 | 29,185 | 28,246 |
| Mortgage loans | 11 | 115,413 | 112,869 |
| Trading assets | 12 | 1,751 | 5,206 |
| Positive replacement values of derivative financial instruments | 13 | 2,442 | 2,621 |
| Financial investments | 14 | 283 | 309 |
| Accrued income and prepaid expenses | | 374 | 358 |
| Participations | | 1,623 | 1,596 |
| Tangible fixed assets | | 275 | 187 |
| Intangible assets | | 1,821 | 2,526 |
| Other assets | 15 | 2,083 | 1,678 |
| Total assets | | 222,747 | 222,931 |
| Total subordinated receivables | | 90 | 120 |
| of which receivables subject to contractual mandatory conversion and/or cancellation | | 90 | 90 |
| Liabilities and shareholders' equity | | | |
| Due to banks | | 15,563 | 21,508 |
| Securities lending and repurchase agreements | 10 | 2,483 | 2,853 |
| Customer deposits | | 165,578 | 164,310 |
| Trading liabilities | 12 | 541 | 768 |
| Negative replacement values of derivative financial instruments | 13 | 1,306 | 663 |
| Liabilities from other financial instruments held at fair value | 12 | 22 | 562 |
| Medium-term notes | | 264 | 372 |
| Bonds and mortgage-backed bonds | | 20,200 | 15,037 |
| Accrued expenses and deferred income | | 783 | 959 |
| Other liabilities | 15 | 1,349 | 478 |
| Provisions | 19 | 121 | 74 |
| Total liabilities | | 208,210 | 207,584 |
| Share capital | 20 | 100 | 100 |
| Legal capital reserves | | 13,533 | 14,733 |
| of which capital contribution reserves | | 13,222 | 14,422 |
| Retained earnings | | 14 | 0 |
| Net profit | | 890 | 514 |
| Total shareholders' equity | | 14,537 | 15,347 |
| Total liabilities and shareholders' equity | | 222,747 | 222,931 |
| Total subordinated liabilities | | 3,105 | 507 |
| of which liabilities subject to contractual mandatory conversion and/or cancellation | | 3,105 | 500 |

Off-balance sheet transactions

| end of | 2018 | 2017 |
|---|--------|--------|
| CHF million | | |
| Contingent liabilities | 20,569 | 22,043 |
| Irrevocable commitments | 9,552 | 8,580 |
| Obligations for calls on shares and additional payments | 47 | 47 |

Off-balance sheet transactions

Contingent liabilities include guarantees for obligations, performance-related guarantees and letters of comfort issued to third parties. Contingencies with a stated amount are included in the off-balance sheet section of the financial statements. In some instances, the exposure of Credit Suisse (Schweiz) AG is not defined as an amount but relates to specific circumstances such as the solvency of subsidiaries or the performance of a service.

Joint and several liability

On November 20, 2016, Credit Suisse AG transferred its universal bank business for Swiss customers, mainly comprising a significant part of the Swiss Universal Bank division to Credit Suisse (Schweiz) AG. This business transfer was executed through a transfer of assets and liabilities in accordance with the Swiss Merger Act. By operation of the Swiss Merger Act, Credit Suisse AG assumed a three-year statutory joint and several liability for obligations existing at the transfer date on November 20, 2016 and which were transferred to Credit Suisse (Schweiz) AG.

The transfer of assets also included assets at a carrying value of CHF 7,274 million and CHF 9,183 million as of December 31, 2018 and 2017, respectively, which are pledged under the covered bonds program of Credit Suisse AG and for which the related liabilities of CHF 5,524 million and CHF 7,185 million as of December 31, 2018 and 2017 are reported by Credit Suisse

AG. As of December 31, 2018 and 2017, the contingent liabilities of Credit Suisse (Schweiz) AG under the covered bond program are CHF 5,524 million and CHF 7,185 million, respectively. Credit Suisse (Schweiz) AG also entered into a contractual arrangement under which it assumed joint and several liability in connection with Credit Suisse (Schweiz) AG's roles under the covered bonds program.

Credit Suisse (Schweiz) AG is a member of Credit Suisse Group AG's Swiss VAT group and therefore subject to joint and several liability according to the Swiss VAT Act.

Deposit insurance guarantee program

Deposit-taking banks and securities dealers in Switzerland are required to ensure the payout of privileged deposits in the case of specified restrictions or compulsory liquidation of a deposit-taking bank, and they jointly guarantee an amount of up to CHF 6 billion. Upon occurrence of a payout event triggered by a specified restriction of business imposed by the Swiss Financial Market Supervisory Authority FINMA (FINMA) or by the compulsory liquidation of another deposit-taking bank, the participating bank's contribution will be calculated based on its share of privileged deposits in proportion to total privileged deposits. Based on FINMA's estimate, Credit Suisse (Schweiz) AG's share in the deposit insurance guarantee program for the period July 1, 2018 to June 30, 2019 is CHF 408 million. This deposit insurance guarantee is reflected in contingent liabilities.

Statement of changes in equity

| | Share capital | Legal capital reserves | | Retained earnings | Net profit | Total shareholder's equity |
|---------------------------------------|---------------|------------------------|--|-------------------|------------|----------------------------|
| | | Total | of which: capital contribution reserves ¹ | | | |
| 2018 (CHF million) | | | | | | |
| Balance at beginning of period | 100 | 14,733 | 14,422 | 0 | 514 | 15,347 |
| Appropriation of net profit | – | – | – | 514 | (514) | – |
| Dividends and other distributions | – | (1,200) | (1,200) | (500) | – | (1,700) |
| Net profit | – | – | – | – | 890 | 890 |
| Balance at end of period | 100 | 13,533 | 13,222 | 14 | 890 | 14,537 |

¹ Distributions from capital contribution reserves are free of Swiss withholding tax.

Notes to the financial statements

1 Company details, business developments and subsequent events

Company details

Credit Suisse (Schweiz) AG is a Swiss bank incorporated as a joint stock corporation (public limited company), with its registered office in Zurich, Switzerland.

Credit Suisse (Schweiz) AG is a wholly owned subsidiary of Credit Suisse AG and Credit Suisse AG is a wholly owned subsidiary of Credit Suisse Group AG (the Group), both domiciled in Switzerland.

Number of employees

| end of | 2018 | 2017 |
|------------------------------|--------------|--------------|
| Full-time equivalents | | |
| Switzerland | 7,050 | 7,600 |
| Total | 7,050 | 7,600 |

Business developments

In 2016, Credit Suisse AG transferred parts of its former Sales and Trading Services (STS), a business area providing sales and trading services, to Credit Suisse (Schweiz) AG. Credit Suisse AG and Credit Suisse (Schweiz) AG contractually agreed to collaboratively operate the Swiss portion of the former STS business.

During 2018, in line with the banking license received from FINMA in 2016, Credit Suisse (Schweiz) AG transferred the majority of the STS-related business in Switzerland to other subsidiaries of the Group. As a result, Credit Suisse (Schweiz) AG and Credit Suisse AG discontinued their contractual relationship with regard to this business with effect as of September 30, 2018. The client offering was not affected by these changes.

→ Refer to "Note 23 – Amounts receivable from and amounts payable to related parties for further information.

Subsequent events

In March 2019, Credit Suisse (Schweiz) AG increased its provision by CHF 33 million for matters where Credit Suisse (Schweiz) AG will indemnify Credit Suisse AG for expenses incurred in accordance with the asset transfer agreement dated November 17, 2016 between Credit Suisse AG and Credit Suisse (Schweiz) AG.

2 Accounting and valuation principles

Summary of significant accounting and valuation principles

Basis for accounting

The Credit Suisse (Schweiz) AG stand-alone financial statements are prepared in accordance with the accounting rules of the Swiss Federal Law on Banks and Savings Banks (Bank Law), the corresponding Implementing Ordinance (Bank Ordinance) and FINMA circular 2015/1, "Accounting rules for banks, securities dealers, financial groups and conglomerates" (Swiss GAAP statutory) as applicable for the preparation of reliable assessment statutory single-entity financial statements (*Statutarischer Einzelabschluss mit zuverlässiger Darstellung*). The financial year for Credit Suisse (Schweiz) AG ends on December 31.

Certain changes were made to the prior year's financial statements to conform to the current year's presentation and had no impact on net profit/(loss) or total shareholders' equity.

Recording of transactions

Transactions are generally recognized on a trade date basis at the point in time when they become legally binding unless specific

guidance is provided for settlement date accounting, such as for issuances of debt and structured notes.

Foreign currency translations

The functional currency of Credit Suisse (Schweiz) AG is Swiss francs (CHF). Transactions denominated in currencies other than the functional currency are recorded using the foreign exchange rates at the date of the transaction.

Receivables and payables denominated in foreign currency are translated to Swiss francs using spot rates as of the balance sheet date. Gains and losses from foreign exchange rate differences are recorded in the statement of income in net income/(loss) from trading activities and fair value option. Participations, tangible fixed assets and intangible assets denominated in foreign currency are translated to Swiss francs using the historical exchange rates.

The following table provides the foreign exchange rates applied for the preparation of the Credit Suisse (Schweiz) AG standalone financial statements.

Foreign exchange rates

| | End of | |
|-----------------|--------|------|
| | 2018 | 2017 |
| 1 USD / 1 CHF | 0.99 | 0.98 |
| 1 EUR / 1 CHF | 1.13 | 1.17 |
| 1 GBP / 1 CHF | 1.26 | 1.32 |
| 100 JPY / 1 CHF | 0.89 | 0.87 |

Cash and other liquid assets

Cash and other liquid assets are recognized at their nominal value.

Due from banks

Amounts due from banks, including interest due but not paid, are recognized at their nominal value less any necessary valuation adjustments.

Due from customers and mortgage loans

Amounts due from customers and mortgage loans, including interest due but not paid, are recognized at their nominal value less any necessary valuation adjustments.

All customer loans are assessed individually for default risks and, where necessary, valuation adjustments are recorded in accordance with internal policies. These valuation adjustments take into account the value of the collateral and the financial standing of the borrower (counterparty risk). Credit Suisse (Schweiz) AG evaluates many factors when determining valuation adjustments, including the volatility of default probabilities, rating changes, the magnitude of potential loss, internal risk ratings, and geographic, industry and other economic factors.

Valuation adjustments are netted with the corresponding assets.

Trading assets and liabilities

In order to qualify as trading activity, positions (assets and liabilities) have to be actively managed with the objective of realizing gains from fluctuations in market prices which includes an ongoing willingness to increase, decrease, close or hedge risk positions. The designation as trading position has to be made, and documented accordingly, upon conclusion of the transaction.

Trading securities are carried at fair value with changes in fair value recorded in the statement of income in net income/(loss) from trading activities and fair value option. The fair value is determined using either the price set on a price-efficient and liquid market or a price calculated using a valuation model.

Interest and dividend income resulting from trading positions is recorded in gross income from interest activities. Refinancing costs are not charged to net income from trading activities and fair value option.

Reclassifications between trading assets, financial investments and participations are allowed. Such reclassifications are recorded at the fair value valid at the time when the decision

to reclassify is made. Resulting gains or losses are recognized applying the same accounting principles as for the recognition of results from the disposal of such assets.

Derivative financial instruments and hedge accounting

Derivative financial instruments consist of trading and hedging instruments.

Positive and negative replacement values of outstanding derivative financial instruments arising from transactions for Credit Suisse (Schweiz) AG's own account are disclosed as separate line items in the balance sheet, with related fair value changes recorded in net income from trading activities and fair value option.

Replacement values of derivative financial instruments arising from transactions for the account of customers are recognized if a risk exists that a customer or other counterparty (e.g., exchange, exchange member, issuer of the instrument, broker) of a transaction is no longer able to meet its obligations resulting in an exposure to loss for Credit Suisse (Schweiz) AG during the remaining term of the contract.

Hedge accounting is determined, tested for effectiveness and disclosed in accordance with accounting principles generally accepted in the US (US GAAP) as allowed under Swiss GAAP statutory accounting rules. Derivative financial instruments used as hedging instruments in hedging relationships are always recorded at fair value. The effectiveness of hedging relationships is assessed both prospectively and retrospectively. The prospective assessment is performed both at the inception of a hedging relationship and on an ongoing basis, and requires the justification that the relationship will be highly effective over future periods. The retrospective assessment is performed on an ongoing basis and requires the confirmation whether or not the hedging relationship has actually been effective. If it has been concluded, through a retrospective evaluation, that hedge accounting is appropriate for the current period, the amount of hedge ineffectiveness is recognized in earnings.

For fair value hedges, to the extent these hedges are effective, the gains and losses resulting from the valuation of the hedging instruments are recorded in the same statement of income line items in which gains and losses from the hedged items are recognized. Gains and losses resulting from fair valuing the risk being hedged of the hedged items are not recorded as an adjustment to the carrying value of the hedged items but are recorded in the compensation account included in other assets or other liabilities. Any changes in fair value representing hedging ineffectiveness are recorded in net income from trading activities and fair value option.

For cash flow hedges, to the extent these hedges are effective, gains and losses resulting from the valuation of the hedging instruments are deferred and recorded in the compensation account included in other assets or other liabilities. The deferred amounts are released and recorded in the statement of income in

the same period when the cash flows from the hedged transactions or hedged items are recognized in earnings. Any changes in fair value representing hedging ineffectiveness are recorded in net income from trading activities and fair value option.

Other financial instruments held at fair value and liabilities from other financial instruments held at fair value

Financial instruments which are not part of the trading portfolio may be measured at fair value and classified in other financial instruments held at fair value or liabilities from other financial instruments held at fair value if all of the following conditions are met:

- The financial instruments are valued at fair value and are subject to risk management corresponding to that for trading positions including a documented risk management and investment strategy which ensures appropriate recognition, measurement and limitation of the miscellaneous risks.
- An economic hedging relationship between the financial instruments on the asset side and the financial instruments on the liability side exists and gains and losses from the fair valuation of these financial instruments are largely offset (avoidance of an accounting mismatch).
- Impacts of changes in own credit spreads on the fair value of an issued debt instrument following initial recognition cannot be reflected in the statement of income. Impacts of changes in own credit spreads are recognized in the compensation account.

Changes in fair value are recorded in net income from trading activities and fair value option.

Participations

Equity securities in a company, which are owned by Credit Suisse (Schweiz) AG, qualify as a participation if these securities are held for the purpose of permanent investment, irrespective of the percentage of voting shares held, or, if these equity securities are in a banking and financial market infrastructure enterprise, in particular participations in joint organizations.

Participations are measured at acquisition cost less any impairments. Goodwill and intangible assets related to the acquisition of a participation are part of the participation's historical cost under Swiss GAAP statutory and not separately identified and recorded. Impairment is assessed individually for each participation at each balance sheet date or at any point in time when facts and circumstances would indicate that an event has occurred which triggers an impairment review. An impairment is recorded if the carrying value exceeds the fair value of the participation. If the fair value of a participation recovers significantly and is considered sustainable, a prior period impairment can be reversed up to the historical cost value of the respective participation.

Intangible assets

Intangible assets may be acquired individually or as part of a group of assets assumed in a business transfer. Intangible assets mainly include but are not limited to: customer base, goodwill and trademarks. Intangible assets are initially measured at their

acquisition costs. Intangible assets are amortized over a useful life not to exceed five years and tested for impairment annually, or more frequently if events or changes in circumstances indicate that the intangible assets may be impaired.

Other assets and other liabilities

Other assets and other liabilities are generally recorded at cost or nominal value. Other assets and other liabilities include the net balance of the compensation accounts. The compensation account assets and liabilities include changes in the book values of assets and liabilities that are not recognized in the statement of income of a reporting period. In particular, the compensation accounts are used to record the hedge effectiveness, impacts from changes in own credit spreads and deferred gains or losses from the sale of debt securities held-to-maturity. The gross amounts of compensation account assets and liabilities are offset and reported net on the balance sheet either in other assets or in other liabilities.

Due to banks

Amounts due to banks are recognized at their nominal value.

Customer deposits

Amounts due in respect of customer deposits are recognized at their nominal value.

Bonds and mortgage-backed bonds

Bonds and mortgage-backed bonds are carried at amortized cost. Debt issuance costs are recorded in other assets and other liabilities, respectively.

Provisions

Provisions are recorded to cover specific risks related to a past event prior to the balance sheet date. Provisions represent a probable obligation for which amount and/or due date are uncertain but can be reasonably estimated. Where the time factor has a material impact, the amount of the provision is discounted.

Provisions which are no longer economically necessary and which are not used in the same reporting period to cover probable obligations of the same nature are released to income:

- tax provisions through line item taxes;
- provisions for pension benefit obligations and staff-related restructuring provisions through personnel expenses; and
- provisions for off-balance sheet related default risks and other provisions including litigation provisions through line item increase/(release) of provisions and other value adjustments, and losses.

Commission income

Commission income is recognized when arrangements exist, services have been rendered, the revenue is fixed or determinable and collectability is reasonably assured. As applicable, commissions and fees are recognized ratably over the service period and either accrued or deferred in the balance sheet in the line items accrued income and prepaid expenses and accrued expenses and deferred income, respectively.

Commission income and commission expense are generally recorded on a gross basis in the statement of income.

Income tax accounting

Income taxes are based on the tax laws of each tax jurisdiction and are expensed in the period in which the taxable profits are made.

Tax provisions are recognized in the statement of income in line item taxes and included in provisions on the balance sheet.

In line with the accounting rules for single-entity statutory financial statements, deferred tax assets on net operating losses are not recognized. Deferred taxation items for temporary differences between the carrying value of an asset or a liability under Swiss GAAP statutory and the respective value for tax reporting, i.e., its tax base, are also not recognized.

Extraordinary income and expense

The recognition of extraordinary income or expense is limited to either transactions which are non-recurring and non-operating, such as the disposal of fixed assets or participations, or income and expense related to other reporting periods if they account for the correction of errors with regards to non-operating transactions of prior periods.

Contingent liabilities and irrevocable commitments

Contingent liabilities are recorded as off-balance sheet transactions at their maximum potential payment amounts. Irrevocable commitments are recorded as off-balance sheet transactions at

their nominal values, except for irrevocable commitments with a remaining maturity of less than six weeks which are excluded from the disclosure. As necessary, related provisions are recorded on the balance sheet in line item provisions.

Capital adequacy disclosures

Capital adequacy disclosures for the Group and Credit Suisse (Schweiz) AG are presented in the publications "Pillar 3 and regulatory disclosures – Credit Suisse Group AG" and "Regulatory disclosures – Subsidiaries", respectively.

→ Refer to [credit-suisse.com/regulatorydisclosures](https://www.credit-suisse.com/regulatorydisclosures) for additional information.

Prior period information

In 2018, receivables and deferred payables under documentary letters of credit with deferred payment have been reclassified from due from customers to other assets and from customer deposits to other liabilities, respectively. As of December 31, 2017, such receivables and payables would have amounted to CHF 356 million each. In line with Swiss GAAP statutory, prior-year balances have not been reclassified.

→ Refer to "Note 15 – Other assets and other liabilities for further information.

The disclosure of variable compensation expenses has been changed to include deferred variable compensation expenses. For comparison, variable compensation expenses disclosed for 2017 has been corrected by CHF 76 million.

→ Refer to "Note 6 – Personnel expenses for further information.

3 Risk management, derivatives and hedging activities

Risk management

Prudent risk taking in line with the strategic priorities of Credit Suisse (Schweiz) AG is fundamental to its business. The primary objectives of risk management are to protect the financial strength and reputation of Credit Suisse (Schweiz) AG, while ensuring that capital is well deployed to support business growth and activities. The risk management framework of Credit Suisse (Schweiz) AG is based on transparency, management accountability and independent oversight. Risk management is an integral part of the business planning process with strong senior management and Board of Directors (Board) involvement.

Risk governance

Risk management of Credit Suisse (Schweiz) AG is aligned to the overall risk management governance of the Group. Credit Suisse (Schweiz) AG's risk governance includes a committee structure and a comprehensive set of corporate policies which are developed, reviewed and approved by the Board, the Executive Board, their respective committees, the Chief Risk Officer (CRO), the Chief Financial Officer (CFO) and the Chief Compliance Officer,

in accordance with their respective responsibilities and levels of authority.

The risk governance framework of Credit Suisse (Schweiz) AG is based on a "three lines of defense" governance model, where each line has a specific role with defined responsibilities and works in close collaboration to identify, assess and mitigate risks.

The first line of defense is the front office, which is responsible for pursuing suitable business opportunities within the strategic risk objectives and compliance requirements of Credit Suisse (Schweiz) AG. Its primary responsibility is to ensure compliance with relevant legal and regulatory requirements and maintain effective internal controls.

The second line of defense 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. The second line of defense includes functions such as risk management, compliance, legal and product control. It articulates standards

and expectations for the management of risk and effectiveness of controls, including advising on applicable legal and regulatory requirements, publishing of related policies, monitoring and assessing compliance with regulatory and internal standards.

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

Board of Directors

The Board is responsible for the strategic direction, supervision and control of Credit Suisse (Schweiz) AG, and for defining its overall tolerance for risk. For this purpose, the Board approves the risk management framework and sets overall risk appetite in consultation with its Risk Committee.

The Risk Committee is responsible for assisting the Board in fulfilling its oversight responsibilities by periodically reviewing Credit Suisse (Schweiz) AG's risk management function, its resources and key risks.

The Audit Committee is responsible for assisting the Board in fulfilling its oversight responsibilities by monitoring management's approach with respect to financial reporting, internal controls, accounting and legal and regulatory compliance. Additionally, the Audit Committee is responsible for monitoring the independence and performance of internal and external auditors.

Executive Board

The Executive Board is responsible for developing and implementing strategic business plans of Credit Suisse (Schweiz) AG, subject to approval by the Board. It further reviews and coordinates significant initiatives for the risk management function and oversees the establishment of bank-wide risk policies. The CRO of Credit Suisse (Schweiz) AG is a member of the Executive Board and represents the risk management function with a primary reporting line to the Group CRO and an additional reporting line to the Chief Executive Officer (CEO) of Credit Suisse (Schweiz) AG.

Executive Board risk committees

The Capital Allocation & Risk Management Committee (CARMC) of Credit Suisse (Schweiz) AG is responsible for overseeing and directing the risk profile, recommending risk limits to the Risk Committee and the Board, establishing and allocating risk appetite among the various businesses, reviewing new significant business strategies or changes in business strategies including business migrations, making risk-related decisions on escalations, and for applying measures, methodologies and tools to monitor and manage the risk portfolio. CARMC of Credit Suisse (Schweiz) AG operates in two committees: the Risk Management Committee (RMC) and the Asset Liability Management Committee (ALMC). The RMC is the main governance and decision-making body with respect to market, liquidity, credit and position risk-related matters as well as with respect to operational risks, legal, compliance and regulatory issues and internal control matters. The RMC is responsible for the supervision and control of

the risk profile, its future development and its adequacy with the risk strategy of Credit Suisse (Schweiz) AG. The RMC is also responsible for assessing the allocation of risk capital and making recommendations to the Board as well as establishing and allocating risk limits. The ALMC is responsible for capital, liquidity and funding-related matters, including interest rate risk management, foreign exchange risk and balance sheet development within defined limits.

The Risk Processes & Standards Committee (RPSC) reviews major risk management processes, issues general instructions, standards and processes concerning risk management, approves material changes in market, credit and operational risk management standards, policies and related methodologies, and approves the standards of Credit Suisse (Schweiz) AG's internal models used for calculating regulatory capital requirements.

The Reputational Risk Committee (RRC) sets policies and reviews processes and significant cases relating to reputational risks and sustainability issues. It also ensures adherence to Credit Suisse (Schweiz) AG's reputational and sustainability policies and oversees their implementation.

Risk appetite framework

Credit Suisse (Schweiz) AG maintains a comprehensive risk appetite framework, which is governed by a policy and provides a robust foundation for risk appetite setting and management. A key element of the framework is a detailed statement of the Board-approved risk appetite which is aligned to the financial and capital plans of Credit Suisse (Schweiz) AG. The framework also encompasses the processes and systems for assessing the appropriate level of risk appetite required to constrain the overall risk profile of Credit Suisse (Schweiz) AG.

The Credit Suisse (Schweiz) AG risk appetite framework is aligned to and reflected as a distinct part of the Group risk appetite framework, which is governed by an overarching global policy that encompasses the suite of specific policies, processes and systems with which the risk constraints are calibrated and the risk profile is managed. The risk appetite framework of Credit Suisse (Schweiz) AG was established in 2016 and is guided by the following strategic risk objectives:

- maintaining capital adequacy above minimum regulatory requirements under both normal and stressed conditions;
- promoting stability of earnings to support performance in line with financial objectives;
- ensuring sound management of liquidity and funding risk in normal and stressed conditions;
- proactively controlling concentration risks;
- proactively controlling risks which originate from intercompany positions;
- managing operational and compliance risk to ensure sustainable performance;
- minimizing reputational risk; and
- managing and mitigating conduct risk.

The risk appetite of Credit Suisse (Schweiz) AG is determined in partnership with the financial and capital planning process on an annual basis, based on bottom-up forecasts that reflect planned risk-usage by the businesses and top-down, Board-driven strategic risk objectives and risk appetite. Scenario stress testing of financial and capital plans is an essential element in the risk appetite calibration process as a key means through which strategic risk objectives, financial resources and business plans are aligned. The capital plans are also analyzed using the economic capital coverage ratio, which provides a further means of assessing bottom-up risk plans with respect to available capital resources. The risk appetite is approved through a number of internal governance forums, including joint approval by both the CRO and the CFO, the Risk Appetite Committee of Credit Suisse (Schweiz) AG, the RMC of Credit Suisse (Schweiz) AG, the Board's Risk Committee and subsequently by the Board of Credit Suisse (Schweiz) AG.

A core aspect of the Credit Suisse (Schweiz) AG risk appetite framework is a sound system of integrated risk constraints to maintain the risk profile of Credit Suisse (Schweiz) AG within its overall risk appetite. Risk constraints are classified according to type and authority, with the principal constraint types comprising limits, guidelines and tolerances. The risk constraints restrict the maximum balance sheet and off-balance sheet exposure as well as key risk exposures of Credit Suisse (Schweiz) AG given the market environment, business strategy and financial resources available to absorb losses.

Risk coverage and management

Credit Suisse (Schweiz) AG uses a wide range of risk management practices to address the variety of risks that arise from its business activities. Policies, processes, standards, risk assessment and measurement methodologies, risk appetite constraints and risk monitoring and reporting are key components of Credit Suisse (Schweiz) AG's risk management practices. The risk management practices of Credit Suisse (Schweiz) AG complement each other in the analysis of potential loss, support the identification of interdependencies and interactions of risks across the organization and provide a comprehensive view of its exposures. Credit Suisse (Schweiz) AG regularly reviews and updates its risk management practices to ensure consistency with its business activities and relevance to its business and financial strategies.

The key risk types of Credit Suisse (Schweiz) AG, the internal definitions and key risk evaluation methods are summarized below.

It is important both to evaluate each risk type separately and assess the risk types' combined impact on Credit Suisse (Schweiz) AG, which helps ensure that its overall risk profile remains within the risk appetite of Credit Suisse (Schweiz) AG.

The primary evaluation methods used to assess bank-wide quantifiable risks include economic risk capital and stress testing.

Economic risk capital

Economic risk capital is used as a consistent and comprehensive tool for capital management and limit monitoring. Economic risk capital is a fundamental Credit Suisse (Schweiz) AG risk management tool for measuring and reporting the combined impact from quantifiable risks such as market, credit, operational, pension and expense risks, each of which has an impact on the capital position.

Under the Basel framework, Credit Suisse (Schweiz) AG is required to maintain a robust and comprehensive framework for assessing capital adequacy, defining internal capital targets and ensuring that these capital targets are consistent with its overall risk profile and the current operating environment. Credit Suisse (Schweiz) AG's economic risk capital model represents its internal view of the amount of capital required to support its business activities.

Stress testing

Stress testing or scenario analysis provides an additional approach to risk management and formulates hypothetical questions, including what would happen to Credit Suisse (Schweiz) AG's portfolio if, for example, historic or adverse forward-looking events were to occur.

Stress testing is a fundamental element of Credit Suisse (Schweiz) AG's risk appetite framework included in overall risk management to ensure that Credit Suisse (Schweiz) AG's financial position and risk profile provide sufficient resilience to withstand the impact of severe economic conditions. Stress testing results are monitored against limits, used in risk appetite discussions and strategic business planning and to support Credit Suisse (Schweiz) AG's internal capital adequacy assessment. Within the risk appetite framework, CARMC sets stressed position loss limits to correspond to minimum post-stress capital ratios.

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.

The majority of the credit risk of Credit Suisse (Schweiz) AG is concentrated in the Swiss retail and private banking, corporate and institutional businesses. Credit risk arises from lending products, irrevocable loan commitments, credit guarantees and letters of credit, and results from counterparty exposure arising from derivatives, foreign exchange and other transactions.

Effective credit risk management is a structured process to assess, measure, monitor and manage risk on a consistent basis. This requires careful consideration of proposed extensions of credit, the setting of specific limits, monitoring during the life of the exposure, active use of credit mitigation tools and a disciplined approach to recognizing credit impairment.

The credit risk management framework of Credit Suisse (Schweiz) AG covers its credit exposure with third parties and includes the following core components:

- individual counterparty rating systems;
- transaction rating systems;
- a counterparty credit limit system;
- country concentration limits;
- product limits;
- active credit portfolio management;
- a credit risk provisioning methodology;
- stress testing; and
- portfolio risk models (economic risk capital calculation).

Credit Suisse (Schweiz) AG employs a set of credit ratings for the purpose of internally rating counterparties to whom it is exposed to credit risk as the contractual party, including loans, loan commitments, securities financings or over-the counter (OTC) derivative contracts. Credit ratings are intended to reflect the risk of default of each counterparty. Ratings are assigned based on internally developed rating models and processes, which are subject to governance and internally independent validation procedures. The internal ratings of Credit Suisse (Schweiz) AG may differ from counterparties' external ratings, if one is available. Internal ratings for private individual loans and for corporates are reviewed both regularly and event-driven depending on exposure type, client segment and collateral. Internal ratings for all other corporate and institutional credit facilities are reviewed at least annually. For the calculation of internal risk estimates (e.g., an estimate of expected loss in the event of a counterparty default) and regulatory capital, a probability of default, loss given default and exposure at default are assigned to each facility. These three parameters are primarily derived from internally developed statistical models that have been backtested against internal experience, validated by a function independent of the model owners on a regular basis and approved by FINMA for application in the regulatory capital calculation in the advanced internal ratings-based approach (A-IRB) under the Basel framework.

Credit limits are used to manage individual counterparty credit risk. A system of limits is also established to address concentration risk in the portfolio, including a comprehensive set of country limits as well as limits for certain products and counterparties. In addition, credit risk concentration is regularly supervised by credit and risk management committees, taking current market conditions and trend analysis into consideration. A rigorous credit quality review process provides an early identification of possible changes in the creditworthiness of clients and includes regular asset and collateral quality reviews, business and financial statement analysis, and relevant economic and industry studies. Regularly updated watch lists and review meetings are used for the identification of counterparties that could be subject to adverse changes in creditworthiness.

Default risks, impairments and credit risk provisioning methodology

Credit Suisse (Schweiz) AG's regularly reviews the credit quality of clients and counterparties. The appropriateness of allowances

for credit losses is regularly reviewed. Impaired transactions are further classified as potential problem exposure, non-performing exposure, non-interest-earning exposure or restructured exposure, and the exposures are generally managed within credit recovery units. The credit portfolio & provisions review committee regularly determines the adequacy of allowances at the level of the Group and Credit Suisse (Schweiz) AG. For impaired loans, the fair value of collateral is determined within 90 days of the date the impairment was identified and thereafter annually or more frequently by credit risk management within the impairment review process.

Credit Suisse (Schweiz) AG maintains specific valuation allowances on loans valued at amortized cost, which are considered a reasonable estimate of losses identified in the existing credit portfolio. Provisions for loan losses are established based on a regular and detailed analysis of all counterparties, taking collateral value into consideration. If uncertainty exists as to the repayment of either principal or interest, a specific valuation allowance is either created or adjusted accordingly. The specific allowance for loan losses is revalued by credit risk management of Credit Suisse (Schweiz) AG at least annually or more frequently depending on the risk profile of the borrower or credit relevant events.

An inherent loss allowance is estimated for all loans not specifically identified as impaired and that, on a portfolio basis, are considered to contain inherent losses. Inherent losses in the lending portfolios of Credit Suisse (Schweiz) AG related to the Swiss private banking, corporate, institutional and real estate businesses are determined based on current internal risk ratings, collateral and exposure structure, applying historical default and loss experience in the ratings and loss parameters. In the investment banking businesses of Credit Suisse (Schweiz) AG, inherent losses on loans are estimated based on a model using long-term industry-wide historical default and recovery data taking into account the credit rating and industry of each counterparty. A separate component of the calculation reflects the current market conditions in the allowance for loan losses. Qualitative adjustments to reflect current market conditions or any other factors not captured by the model are approved by management and reflected in the allowance for loan losses. A provision for inherent losses on off-balance sheet lending-related exposure, such as contingent liabilities and irrevocable commitments, is also determined, using a methodology similar to that used for the loan portfolio.

Risk mitigation

Credit Suisse (Schweiz) AG actively manages its credit exposure utilizing credit hedges, collateral and guarantees. Collateral is security in the form of an asset, which serves to mitigate the inherent risk of credit loss and to improve recoveries in the event of a default.

The policies and processes for collateral valuation and management are driven by legal documentation that is agreed with the counterparties of Credit Suisse (Schweiz) AG and a collateral management function.

For portfolios collateralized by marketable securities, collateral is valued daily, except as agreed otherwise in contracts or other legal documentation. The mark-to-market prices used for valuing collateral are a combination of internal and market prices sourced from trading platforms and service providers, as appropriate. The management of collateral is standardized and centralized to ensure complete coverage of traded products.

For the mortgage lending portfolio in the private banking, corporate and institutional businesses, real estate property is valued at the time of credit approval and periodically thereafter, according to internal policies and controls of Credit Suisse (Schweiz) AG, depending on the type of loan (e.g., residential or commercial loan), characteristics of the property, current developments in the relevant real estate market and the current level of credit exposure to the borrower (loan-to-value ratio). If the credit exposure to a borrower has changed significantly, in volatile markets or in times of increasing general market risk, collateral values may be appraised more frequently. Management judgment is applied in assessing whether markets are volatile or general market risk has increased to a degree that warrants a more frequent update of collateral values. Movements in monitored risk metrics that are statistically different compared to historical experience are considered in addition to analysis of externally-provided forecasts, scenario techniques and macro-economic research. For impaired loans, the fair value of collateral is determined within 90 days of the date the impairment was identified and thereafter annually or more frequently by credit risk management within the impairment review process.

The primary types of collateral depend on the type of credit transaction. Collateral securing loan transactions primarily includes financial collateral pledged against loans collateralized by securities of clients in the private banking, corporate and institutional businesses (primarily cash and marketable securities), real estate property for mortgages, mainly residential, but also offices, commercial and industrial properties, and other types of lending collateral.

Reputational risk

Reputational risk is the risk that negative perception by stakeholders of Credit Suisse (Schweiz) AG, including clients, counterparties, employees, shareholders, regulators and the general public, may adversely impact client acquisition and damage the business relationships of Credit Suisse (Schweiz) AG with clients and counterparties, affecting staff morale and reducing access to funding sources.

Reputational risk may arise from a variety of sources, including, but not limited to, the nature or purpose of a proposed transaction or service, the identity or activity of a potential client, the regulatory or political climate in which the business will be transacted, and the potentially controversial environmental or social impacts of a transaction or significant public attention surrounding the transaction itself. The risk may also arise from reputational damage in the aftermath of an operational risk incident, such as cyber

crime or the failure by employees to meet expected conduct and ethical standards.

Reputational risk is included in the risk appetite framework to ensure that risk-taking is aligned with the approved risk appetite. Credit Suisse (Schweiz) AG highly values its reputation and is fully committed to protecting it through a prudent approach to risk-taking and a responsible approach to business. This is achieved through the use of dedicated processes, resources and policies focused on identifying, evaluating, managing and reporting potential reputational risks. This is also achieved by applying the highest standards of personal accountability and ethical conduct as set out in the Code of Conduct of Credit Suisse Group and Credit Suisse (Schweiz) AG's approach to conduct and ethics. Reputational risk potentially arising from proposed business transactions and client activity is assessed in the reputational risk review process. The policy requires employees to be conservative when assessing potential reputational impact and, where certain indicators give rise to potential reputational risk, the relevant business proposal or service must be submitted through the reputational risk review process.

The Reputational Risk & Sustainability Committee (RRSC), on a global level, and the RRC, on a divisional or legal entity level, are the governing bodies responsible for the oversight and active discussion of reputational risk and sustainability issues. At the Board level, the Risk Committee and Audit Committee jointly assist the Board in fulfilling its reputational risk oversight responsibilities by reviewing and approving Credit Suisse (Schweiz) AG's risk appetite framework as well as assessing the adequacy of the management of reputational risks.

Operational, compliance and regulatory risk

Operational risk is the risk of financial loss arising from inadequate or failed internal processes, people or systems, or from external events. Operational risk does not include strategic and reputational risks. However, some operational risks can lead to reputational issues and as such operational and reputational risks may be closely linked. Operational risk is inherent in most aspects of the Credit Suisse (Schweiz) AG's business, including the systems and processes that support its activities. It comprises a large number of disparate risks that can manifest in a variety of ways. Examples of operational risk include the risk of damage to physical assets, business disruption, failures relating to third-party processes, data integrity and trade processing, cyber attacks and fraudulent or unauthorized transactions. Operational risk can arise from human error, inappropriate conduct, failures in systems, processes and controls, deliberate attack or natural and man-made disasters.

Compliance and regulatory risk is the risk from the failure to comply with laws, regulations, rules or market standards that may have a negative effect on the Credit Suisse (Schweiz) AG's franchise and clients it serves. It includes the risk that changes in laws, regulations, rules or market standards may limit activities and have a negative effect on the Credit Suisse (Schweiz) AG's business or its ability to implement strategic initiatives, or can result in an increase in operating costs for the business or make

its products and services more expensive for clients. Examples of sources of compliance risks include cross-border activities, the risk of money laundering, improper handling of confidential information, conflicts of interest, improper gifts and entertainment and failure in duties to clients.

To effectively manage operational and compliance risks, the bank-wide enterprise risk and controls framework (ERCF) was introduced in 2016 focusing on the early identification, recording, assessment, monitoring, prevention and mitigation of these risks, as well as timely and meaningful management reporting. Over the past three years, Credit Suisse (Schweiz) AG has further improved the integration of previously separate operational risk processes, providing a more coherent and systematic approach to managing all aspects of the operational risk landscape. Under the ERCF, Credit Suisse (Schweiz) AG in line with the Group integrated the operational risk framework and all of its components with the compliance risk components to further harmonize its approach to non-financial risk. The assessment processes for operational and compliance risks are closely coordinated, resulting in an enhanced risk and control self-assessment that covers both risk types in a more consistent manner. Also, standardized bank-wide role descriptions define the responsibilities for identifying, assessing, reporting and managing risks across the organization. In 2018, continued progress was made in rolling out a systematic key control activities framework as part of the ERCF. This framework applies consistent standards and approaches to the identification, documentation and assessment of key controls across the bank.

Credit Suisse (Schweiz) AG is using an internal model to calculate the regulatory capital requirement for operational risk under the advanced measurement approach (AMA) since 2016. Since then the model has been calibrated annually and approved by FINMA.

In addition to managing and mitigating operational risks under the ERCF through business- and risk-related processes and organization, Credit Suisse (Schweiz) AG also transfers the risk of potential loss from certain operational risks to third-party insurance companies in certain instances.

Conduct risk

Credit Suisse (Schweiz) AG considers conduct risk to be the risk that improper behavior or judgment by Credit Suisse (Schweiz) AG's employees may result in a negative financial, non-financial or reputational impact to its clients, employees or Credit Suisse (Schweiz) AG or negatively impact the integrity of the financial markets. Conduct risk may arise from a wide variety of activities and types of behaviors. A bank-wide definition of conduct risk supports the efforts of Credit Suisse (Schweiz) AG's employees to have a common understanding of and consistently manage, minimize and mitigate its conduct risk. Further, it promotes standards of responsible conduct and ethics in its employees. Managing conduct risk includes consideration of the risks generated by each business and the strength of the associated mitigating controls. Conduct risk is also assessed by reviewing and learning

from past incidents within Credit Suisse (Schweiz) AG and at other firms in the financial services sector. Compliance oversees conduct risk for the bank.

Technology risk

Technology risk deserves particular attention given the complex technological landscape that covers Credit Suisse (Schweiz) AG's business model. Ensuring that confidentiality, integrity and availability of information assets are protected is critical to Credit Suisse (Schweiz) AG's operations.

Technology risk is the risk that technology-related failures, such as service outages or information security incidents, may disrupt business. Technology risk is inherent not only in IT assets of Credit Suisse (Schweiz) AG, but also in the people and processes that interact with them including through dependency on third-party suppliers and the worldwide telecommunications infrastructure. Credit Suisse (Schweiz) AG seeks to ensure that the data used to support key business processes and reporting is secure, complete, accurate, available, timely and meets appropriate quality and integrity standards. Credit Suisse (Schweiz) AG requires its critical IT systems to be identified, secure, resilient and available and support ongoing operations, decision-making, communications and reporting. Credit Suisse (Schweiz) AG's systems must also have the capability, capacity, scalability and adaptability to meet current and future business objectives, the needs of customers and regulatory and legal expectations.

Cyber risk, which is part of technology risk, is the risk that the Credit Suisse (Schweiz) AG will be compromised as a result of cyber attacks, security breaches, unauthorized access, loss or destruction of data, unavailability of service, malware or other events that could have an adverse security impact.

Technology risks are managed through Credit Suisse (Schweiz) AG's operational risk management framework, business continuity management plan and business contingency and resiliency plans. Technology risks are included as part of the bank's overall enterprise risk and control assessment based upon a forward-looking approach focusing on the most significant risks in terms of potential impact and likelihood.

Liquidity and funding risks

Liquidity and funding risk is the risk that Credit Suisse (Schweiz) AG does not have the appropriate amount of funding and liquidity to meet its obligations. The liquidity and funding profile of Credit Suisse (Schweiz) AG reflects its strategy and risk appetite and is driven by business activity levels and the overall operating environment. The liquidity and funding strategy is approved by the ALMC and overseen by the Board. The implementation and execution of the funding and liquidity strategy is managed by Credit Suisse (Schweiz) AG's CFO and Treasury. Treasury ensures adherence to the funding policies. This approach enhances the ability of Credit Suisse (Schweiz) AG to manage potential liquidity and funding risks and to promptly adjust its liquidity and funding levels to meet stress situations.

The RMC and the Board's Risk Committee of Credit Suisse (Schweiz) AG define at least annually a liquidity and funding risk appetite framework, which ensures that the liquidity buffer and funding flows of Credit Suisse (Schweiz) AG are sized and managed so to comply to all liquidity regulatory requirements and in addition to withstand a series of defined market- and liquidity-specific stress situations. The liquidity and funding profile of Credit Suisse (Schweiz) AG is regularly reported to the ALMC, RMC and the Board, including the set of risk metrics and parameters for the balance sheet and funding usage of its businesses.

Market risk

Market risk is the risk of financial loss arising from movements in market risk factors. The movements in market risk factors that generate financial losses are considered to be adverse changes in interest rates, credit spreads, foreign exchange rates, equity and commodity prices and other factors such as market volatility and the correlation of market prices across asset classes. A typical transaction or position in financial instruments may be exposed to a number of different market risk factors. The trading portfolios (trading book) and non-trading portfolios (banking book) of Credit Suisse (Schweiz) AG have different sources of market risk.

The classification of assets and liabilities into trading book and banking book portfolios determines the approach for analyzing the market risk exposure of Credit Suisse (Schweiz) AG. This classification reflects the business and risk management perspective and may be different from the classification of these assets and liabilities for financial reporting purposes.

Market risks from trading books primarily relate to trading activities of Credit Suisse (Schweiz) AG to support and provide market access to its Swiss clients. Trading book activities of Credit Suisse (Schweiz) AG carry no significant market risk. In line with the requirements of its banking license, Credit Suisse (Schweiz) AG hedges its market risk related to trading activities with other Group entities or external counterparties.

Market risks from the banking book primarily relate to asset and liability mismatch exposures. The businesses of Credit Suisse (Schweiz) AG and the treasury function have non-trading portfolios that carry market risks, mainly related to changes in interest rates, but also to changes in foreign exchange rates and, to a lesser extent, credit spreads.

Credit Suisse (Schweiz) AG uses market risk measurement and management methods capable of calculating comparable exposures across its many activities and employs focused tools that can model unique characteristics of certain instruments or portfolios. The tools are used for internal market risk management, internal market risk reporting and external disclosure purposes. The market risk exposures of Credit Suisse (Schweiz) AG are reflected in value-at-risk (VaR), scenario analysis, as included in the stress testing framework, position risk, as included in economic risk capital, and sensitivity analysis. Each evaluation method aims to estimate the potential loss that Credit Suisse (Schweiz) AG can incur due to an adverse market movement with

varying degrees of severity. VaR, scenario analysis, position risk and sensitivity analysis complement each other in the market risk assessment of Credit Suisse (Schweiz) AG and are used to measure market risk at the level of Credit Suisse (Schweiz) AG. For example, interest rate risk on banking book positions is measured by estimating the impact resulting from a one basis point parallel increase in yield curves on the present value of interest rate-sensitive banking book positions and other measures including the potential value change resulting from a significant change in yield curves.

In the banking book, savings accounts and many other retail banking products have no contractual maturity date or direct market-linked interest rate and are risk-managed on a pooled basis using replication portfolios on behalf of the private banking, corporate and institutional businesses. The replication portfolios approximate the interest rate characteristics of the underlying products.

Model risk

Model risk is the risk of adverse consequences from decisions made based on model results that may be incorrect, misinterpreted or used inappropriately. All quantitative models are imperfect approximations that are subject to varying degrees of uncertainty in their output depending on, among other factors, the model's complexity and its intended application. As a result, modeling errors are unavoidable and can result in inappropriate business decisions, financial loss, regulatory and reputational risk and incorrect or inadequate capital reporting. Model errors, intrinsic uncertainty and inappropriate use are the primary contributors to aggregate, bank-wide model risk.

Through the global model risk management and governance framework, Credit Suisse (Schweiz) AG seeks to identify, measure and mitigate all significant risks arising from the use of models embedded within its global model ecosystem. Model risks can then be mitigated through a well-designed and robust model risk management framework, encompassing both model governance policies and procedures in combination with model validation best practices.

Legal risk

Legal risk is the risk of loss or imposition of damages, fines, penalties or other liability or any other material adverse impact arising from circumstances including the failure to comply with legal obligations, whether contractual, statutory or otherwise, changes in enforcement practices, the making of a legal challenge or claim against Credit Suisse (Schweiz) AG, its inability to enforce legal rights or the failure to take measures to protect its rights.

Fiduciary risk

Fiduciary risk is the risk of financial loss arising when Credit Suisse (Schweiz) AG or its employees, acting in a fiduciary capacity as trustee, investment manager or as mandated by law, do not act in the best interest of the client in connection with the advice and management of its client's assets including from a

product-related market, credit, liquidity, counterparty and operational risk perspective.

Assessing investment performance and reviewing forward-looking investment risks in discretionary client portfolios is central to Credit Suisse (Schweiz) AG's oversight program. This program targets daily, monthly or quarterly monitoring of all portfolio management activities with independent analysis provided to senior management. Formal review meetings are in place to ensure that investment performance and risks are in line with expectations and adequately supervised.

Strategic risk

Strategic risk is the risk of financial loss or reputational damage arising from inappropriate strategic decisions, ineffective implementation of business strategies or an inability to adapt business strategies in response to changes in the business environment. A wide variety of financial, risk, client and market analyses are used by Credit Suisse (Schweiz) AG to monitor the effectiveness of its strategies and the performance of its businesses against their strategic objectives. These include an analysis of current and expected operating conditions, an analysis of current and target market positioning, and detailed scenario planning.

Strategic plans are developed annually and reviewed by the CEO, CFO and CRO before presentation to the full Executive Board. Following approval by the Executive Board, Credit Suisse (Schweiz) AG's plan is submitted for review and approval to the Board. In addition, there is an annual strategic review at which the Board evaluates Credit Suisse (Schweiz) AG's performance against strategic objectives and sets the overall strategic direction for Credit Suisse (Schweiz) AG. From time to time, the Board and the Executive Board conduct more fundamental in-depth reviews of Credit Suisse (Schweiz) AG's strategy.

Use of derivative financial instruments and hedge accounting

Business policy for use of derivative financial instruments

Derivatives are generally either privately negotiated OTC contracts or standard contracts transacted through regulated exchanges. Credit Suisse (Schweiz) AG's most frequently used freestanding derivative products, entered into for trading and risk management purposes, include interest rate, credit default and cross-currency swaps, interest rate and foreign exchange options, foreign exchange forward contracts and foreign exchange and interest rate futures.

On the date a derivative contract is entered into, Credit Suisse (Schweiz) AG designates it as belonging to one of the following

categories: trading activities; a risk management transaction that does not qualify as a hedge under accounting standards (referred to as an economic hedge); a hedge of the fair value of a recognized asset or liability; or a hedge of the variability of cash flows to be received or paid relating to a recognized asset or liability or a forecasted transaction.

Economic hedges

Economic hedges arise when Credit Suisse (Schweiz) AG enters into derivative contracts for its own risk management purposes, but the contracts entered into do not qualify for hedge accounting. These economic hedges include the following types:

- interest rate derivatives to manage net interest rate risk on certain core banking business assets and liabilities;
- foreign exchange derivatives to manage foreign exchange risk on certain core banking business revenue and expense items as well as core banking business assets and liabilities against adverse movements in foreign exchange rates;
- credit derivatives to manage credit risk on certain loan portfolios; and
- futures to manage risk on equity positions including convertible bonds.

Derivatives used in economic hedges are included as trading assets or trading liabilities in the balance sheets and the respective gains and losses included in net income/(loss) from trading activities and fair value option.

→ Refer to "Note 5 – Net income/(loss) from trading activities and fair value option" for further information on economic hedging of foreign exchange risk by the Treasury function.

Hedge accounting

Hedge accounting for Credit Suisse (Schweiz) AG is determined, recorded and disclosed in accordance with US GAAP as allowed under Swiss GAAP statutory accounting rules.

Credit Suisse (Schweiz) AG designates fair value hedges as part of an overall interest rate risk management strategy that incorporates the use of derivative instruments to minimize fluctuations in earnings that are caused by interest rate volatility.

Credit Suisse (Schweiz) AG designates cash flow hedges as part of its strategy to mitigate its risk to variability of cash flows on loans, deposits and other debt obligations by using interest rate swaps to convert variable rate assets or liabilities to fixed rates. Credit Suisse (Schweiz) AG also uses cross-currency swaps to convert foreign-currency-denominated fixed and floating rate assets or liabilities to fixed rate assets or liabilities based on the currency profile to which Credit Suisse (Schweiz) AG elects to be exposed.

→ Refer to "Derivative financial instruments and hedge accounting" in Note 2 – Accounting and valuation principles and "Note 13 – Derivative financial instruments" for further information on hedge accounting.

4 Net income from interest activities

Negative interest income and expense

| in | 2018 | 2017 |
|---|-------|-------|
| CHF million | | |
| Negative interest income debited to interest income | (115) | (135) |
| Negative interest expenses credited to interest expense | 206 | 160 |

Negative interest income is debited to interest income and negative interest expense is credited to interest expense.

5 Net income/(loss) from trading activities and fair value option

| in | 2018 | 2017 |
|---|------------|------------|
| By risk of underlying instruments (CHF million) | | |
| Interest rate instruments ¹ | (42) | (38) |
| Equity instruments ¹ | (175) | (180) |
| Foreign exchange | 437 | 495 |
| of which foreign exchange risk hedging activities by treasury function ² | 325 | 402 |
| Precious metals | (5) | 6 |
| Commodities | 16 | 20 |
| Credit instruments | (52) | (68) |
| Other instruments | (2) | (21) |
| Net income/(loss) from trading activities and fair value option | 177 | 214 |
| of which net income/(loss) from fair value option | 156 | (42) |
| of which net income/(loss) from liabilities valued under the fair value option | 156 | (42) |

¹ Includes trading income/(loss) from related fund investments.

² The treasury function of Credit Suisse (Schweiz) AG enters into economic hedges to manage foreign currency risk using short duration foreign currency swaps. The result of these hedges includes implicit interest income and expenses from the difference between spot rates and forward rates.

Trading activities at the level of Credit Suisse (Schweiz) AG are monitored and managed for legal entity-specific treasury, risk management and capital adequacy purposes. For the purpose of performance management, trading activities are monitored and managed mainly at the level of the Group's Swiss Universal Bank division on the basis of US GAAP financial metrics.

6 Personnel expenses

| in | 2018 | 2017 |
|--|--------------|--------------|
| CHF million | | |
| Salaries | 1,033 | 1,095 |
| of which variable compensation expenses ¹ | 197 | 235 |
| Social benefit expenses | 255 | 253 |
| of which pension and other post-retirement expenses | 171 | 166 |
| Other personnel expenses | 31 | 35 |
| Personnel expenses | 1,319 | 1,383 |

¹ Includes current and deferred variable compensation expenses. Prior period has been corrected.

→ Refer to "Note 17 – Pension plans" for further information on pension expenses.

7 General and administrative expenses

| in | 2018 | 2017 |
|--|--------------|--------------|
| CHF million | | |
| Professional services | 135 | 174 |
| Occupancy expenses | 188 | 196 |
| Marketing and advertising | 58 | 66 |
| Travel and entertainment | 42 | 42 |
| Postage and courier services | 27 | 29 |
| Market data services | 29 | 33 |
| Information and communication technology expenses | 30 | 27 |
| Furniture and equipment | 10 | 12 |
| Fees to external audit companies | 5 | 5 |
| of which fees for financial and regulatory audits ¹ | 4 | 5 |
| of which fees for other services | 1 | 0 |
| Operating expenses charged by related parties ² | 1,029 | 1,096 |
| Other operating expenses | 85 | 54 |
| General and administrative expenses | 1,638 | 1,734 |

¹ Represents total fees for financial statement, regulatory and related audit services paid by legal entity Credit Suisse (Schweiz) AG to external audit companies.

² Includes operating expenses charged by Credit Suisse Services AG, Credit Suisse AG and other affiliated companies, mainly for information technology, operations, business support services and other central functions provided to Credit Suisse (Schweiz) AG.

8 Increase/(release) of provisions and other valuation adjustments, losses and extraordinary income

| in | 2018 | 2017 |
|---|-----------------|-----------|
| CHF million | | |
| Increase/(release) of provisions ^{1, 2} | 47 | 29 |
| Other losses | 6 | 3 |
| Increase/(release) of provisions and other valuation adjustments, and losses | 53 | 32 |
| Gains realized from the disposal of participations | 71 ³ | 0 |
| Extraordinary income | 71 | 0 |

1 Excludes restructuring provisions.

2 Primarily related to increased litigation provisions.

3 Related to the sale of a non-marketable minority interest in a participation.

9 Taxes

| in | 2018 | 2017 |
|---|-------------|-------------|
| CHF million | | |
| Current income tax (expense)/benefit | (46) | (14) |
| Non-income-based tax (expense)/benefit ¹ | (27) | (27) |
| Taxes | (73) | (41) |

1 Includes capital taxes.

For the financial year ended December 31, 2018 and 2017, the average tax rate, defined as income tax expense divided by the sum of profit before income tax, was 5% and 3%, respectively. Income tax expense for the financial year ended December 31, 2018 and 2017 reflected a benefit of CHF 29 million and CHF 9 million, respectively, from the utilization of tax losses carried forward in Switzerland.

10 Assets and liabilities from securities lending and borrowing, repurchase and reverse repurchase agreements

| end of | 2018 | 2017 |
|---|---------------|---------------|
| CHF million | | |
| Carrying value of receivables from cash collateral paid for securities borrowed and reverse repurchase agreements – gross | 10,764 | 14,197 |
| Impact from master netting agreements | (757) | (1,263) |
| Carrying value of receivables from cash collateral paid for securities borrowed and reverse repurchase agreements – net | 10,007 | 12,934 |
| Carrying value of liabilities from cash collateral received for securities lent and repurchase agreements – gross | 3,240 | 4,116 |
| Impact from master netting agreements | (757) | (1,263) |
| Carrying value of liabilities from cash collateral received for securities lent and repurchase agreements – net | 2,483 | 2,853 |
| Carrying value of securities transferred under securities lending and borrowing and repurchase agreements | 141 | 1,063 |
| of which transfers with the right to resell or repledge | 141 | 1,063 |
| Fair value of securities received under securities lending and borrowing and reverse repurchase agreements with the right to resell or repledge | 38,940 | 36,144 |
| of which repledged | 14,695 | 10,761 |
| of which resold | 2,345 | 2,684 |

11 Collateral and impaired loans

Collateralization of loans

| end of | | | Secured ¹ | Unsecured | Total |
|---------------------------------------|----------------|------------------|----------------------|---------------|----------------|
| | Mortgages | Other collateral | Total | | |
| 2018 (CHF million) | | | | | |
| Due from customers | 599 | 18,776 | 19,375 | 10,092 | 29,467 |
| Residential property | 94,707 | 0 | 94,707 | 0 | 94,707 |
| Offices and commercial property | 11,472 | 0 | 11,472 | 0 | 11,472 |
| Manufacturing and industrial property | 8,069 | 0 | 8,069 | 0 | 8,069 |
| Other | 1,231 | 0 | 1,231 | 0 | 1,231 |
| Mortgage loans | 115,479 | 0 | 115,479 | 0 | 115,479 |
| Gross loans | 116,078 | 18,776 | 134,854 | 10,092 | 144,946 |
| Allowance for loan losses | (69) | (41) | (110) | (238) | (348) |
| Net loans | 116,009 | 18,735 | 134,744 | 9,854 | 144,598 |
| of which due from customers | 596 | 18,735 | 19,331 | 9,854 | 29,185 |
| of which mortgage loans | 115,413 | 0 | 115,413 | 0 | 115,413 |
| 2017 (CHF million) | | | | | |
| Due from customers | 628 | 18,894 | 19,522 | 8,935 | 28,457 |
| Residential property | 91,771 | 0 | 91,771 | 0 | 91,771 |
| Offices and commercial property | 12,149 | 0 | 12,149 | 0 | 12,149 |
| Manufacturing and industrial property | 7,996 | 0 | 7,996 | 0 | 7,996 |
| Other | 1,023 | 0 | 1,023 | 0 | 1,023 |
| Mortgage loans | 112,939 | 0 | 112,939 | 0 | 112,939 |
| Gross loans | 113,567 | 18,894 | 132,461 | 8,935 | 141,396 |
| Allowance for loan losses | (72) | (36) | (108) | (173) | (281) |
| Net loans | 113,495 | 18,858 | 132,353 | 8,762 | 141,115 |
| of which due from customers | 626 | 18,858 | 19,484 | 8,762 | 28,246 |
| of which mortgage loans | 112,869 | 0 | 112,869 | 0 | 112,869 |

¹ Includes the market value of collateral up to the amount of the outstanding related loans. For mortgage loans, the market value of collateral is determined at the time of granting the loan and thereafter regularly reviewed according to the risk management policies and directives of Credit Suisse (Schweiz) AG, with maximum review periods determined by property type, market liquidity and market transparency. For impaired mortgage loans, the market value of collateral is determined annually or more frequently by credit risk management within the impairment review process.

Collateralization of off-balance sheet transactions

| end of | | | Secured ¹ | Unsecured | Total |
|---|------------|------------------|----------------------|---------------------|---------------|
| | Mortgages | Other collateral | Total | | |
| 2018 (CHF million) | | | | | |
| Contingent liabilities | 141 | 9,555 | 9,696 | 10,873 ² | 20,569 |
| Irrevocable commitments | 371 | 1,007 | 1,378 | 8,174 | 9,552 |
| Obligations for calls on shares and additional payments | 0 | 0 | 0 | 47 | 47 |
| Off-balance sheet transactions | 512 | 10,562 | 11,074 | 19,094 | 30,168 |
| 2017 (CHF million) | | | | | |
| Contingent liabilities | 104 | 8,961 | 9,065 | 12,978 ² | 22,043 |
| Irrevocable commitments | 408 | 1,141 | 1,549 | 7,031 | 8,580 |
| Obligations for calls on shares and additional payments | 0 | 0 | 0 | 47 | 47 |
| Off-balance sheet transactions | 512 | 10,102 | 10,614 | 20,056 | 30,670 |

¹ Includes the market value of collateral up to the notional amount of the related off-balance sheet transaction. For mortgage-backed off-balance sheet exposures, the market value of collateral is determined at the time of granting the credit facility and thereafter regularly reviewed according to the risk management policies and directives of Credit Suisse (Schweiz) AG, with maximum review periods determined by property type, market liquidity and market transparency. For impaired exposures, the market value of collateral is determined annually or more frequently by credit risk management within the impairment review process.

² Includes a contingent liability of CHF 5,524 million and CHF 7,185 million as of December 31, 2018 and 2017, respectively, in favor of Credit Suisse AG representing the amount of actual liabilities recorded by Credit Suisse AG under the covered bond program for which Credit Suisse (Schweiz) AG holds the underlying mortgages.

Impaired loans

| end of | Gross amount outstanding | Estimated realizable collateral value ¹ | Net amount outstanding | Specific allowance |
|---------------------------|--------------------------|--|------------------------|--------------------|
| 2018 (CHF million) | | | | |
| Impaired loans | 656 | 270 | 386 | 237 |
| 2017 (CHF million) | | | | |
| Impaired loans | 444 | 218 | 226 | 186 |

¹ Represents the estimated realizable collateral value up to the related gross amount outstanding.

Changes in impaired loans

| | 2018 | | | 2017 | | |
|---|--------------------|----------------|------------|--------------------|----------------|------------|
| | Due from customers | Mortgage loans | Total | Due from customers | Mortgage loans | Total |
| CHF million | | | | | | |
| Balance at beginning of period | 226 | 218 | 444 | 214 | 196 | 410 |
| New impaired loan balances | 244 | 199 | 443 | 170 | 218 | 388 |
| Increase of existing impaired loan balances | 16 | 7 | 23 | 30 | 7 | 37 |
| Reclassifications to performing loans | (12) | (86) | (98) | (27) | (132) | (159) |
| Repayments | (48) | (21) | (69) | (106) | (19) | (125) |
| Liquidation of collateral, insurance and guarantee payments | (3) | (45) | (48) | (6) | (50) | (56) |
| Write-offs | (31) | (2) | (33) | (47) | (2) | (49) |
| Sales | (5) | 0 | (5) | 0 | 0 | 0 |
| Foreign exchange translation impact | (1) | 0 | (1) | (2) | 0 | (2) |
| Balance at end of period | 386 | 270 | 656 | 226 | 218 | 444 |

Changes in impaired loan classification during the period are reflected on a gross basis.

12 Trading assets and liabilities and other financial instruments held at fair value

| end of | 2018 | 2017 |
|---|--------------|--------------|
| CHF million | | |
| Debt securities, money market instruments and money market transactions | 371 | 1,091 |
| of which exchange-traded | 148 | 558 |
| Equity securities | 277 | 2,592 |
| Precious metals and commodities | 1,103 | 1,523 |
| Trading assets | 1,751 | 5,206 |
| of which carrying value determined based on a valuation model | 351 | 808 |
| of which securities eligible for repurchase transactions in accordance with liquidity regulations | 7 | 191 |
| CHF million | | |
| Debt securities, money market instruments and money market transactions | 48 | 329 |
| of which exchange-traded | 32 | 297 |
| Equity securities | 493 | 439 |
| Trading liabilities | 541 | 768 |
| Structured products ¹ | 22 | 562 |
| Liabilities from other financial instruments held at fair value | 22 | 562 |
| Trading liabilities and liabilities from other financial instruments held at fair value | 563 | 1,330 |
| of which carrying value determined based on a valuation model | 96 | 713 |

¹ Refer to "Note 18 – Issued structured products" for further information on structured products.

13 Derivative financial instruments

| end of 2018 | Trading | | | Hedging ¹ | | |
|--|-----------------|----------------------------|----------------------------|----------------------|----------------------------|----------------------------|
| | Notional amount | Positive replacement value | Negative replacement value | Notional amount | Positive replacement value | Negative replacement value |
| CHF million | | | | | | |
| Forwards and forward rate agreements | 5,000 | 0 | 0 | 0 | 0 | 0 |
| Swaps | 155,927 | 1,297 | 1,357 | 12,647 | 0 | 0 |
| Options bought and sold (OTC) | 3,714 | 298 | 321 | 0 | 0 | 0 |
| Futures | 3,972 | 0 | 0 | 0 | 0 | 0 |
| Interest rate products | 168,613 | 1,595 | 1,678 | 12,647 | 0 | 0 |
| Forwards and forward rate agreements | 350,116 | 1,545 | 1,685 | 0 | 0 | 0 |
| Swaps ² | 162 | 1 | 1 | 0 | 0 | 0 |
| Options bought and sold (OTC) | 17,262 | 229 | 225 | 0 | 0 | 0 |
| Foreign exchange products | 367,540 | 1,775 | 1,911 | 0 | 0 | 0 |
| Forwards and forward rate agreements | 1,431 | 13 | 13 | 0 | 0 | 0 |
| Options bought and sold (OTC) | 781 | 22 | 22 | 0 | 0 | 0 |
| Futures | 4 | 0 | 0 | 0 | 0 | 0 |
| Precious metal products | 2,216 | 35 | 35 | 0 | 0 | 0 |
| Swaps | 4,488 | 509 | 26 | 0 | 0 | 0 |
| Options bought and sold (OTC) | 11,228 | 527 | 806 | 0 | 0 | 0 |
| Futures | 827 | 0 | 0 | 0 | 0 | 0 |
| Options bought and sold (exchange-traded) | 14,439 | 247 | 831 | 0 | 0 | 0 |
| Equity/index-related products | 30,982 | 1,283 | 1,663 | 0 | 0 | 0 |
| Credit default swaps | 827 | 4 | 6 | 0 | 0 | 0 |
| Total return swaps | 35 | 0 | 1 | 0 | 0 | 0 |
| Other credit derivatives | 35 | 1 | 0 | 0 | 0 | 0 |
| Credit derivatives | 897 | 5 | 7 | 0 | 0 | 0 |
| Swaps | 10 | 0 | 0 | 0 | 0 | 0 |
| Options bought and sold (OTC) | 111 | 8 | 7 | 0 | 0 | 0 |
| Futures | 8 | 0 | 0 | 0 | 0 | 0 |
| Other derivative products | 129 | 8 | 7 | 0 | 0 | 0 |
| Derivative financial instruments³ | 570,377 | 4,701 | 5,301 | 12,647 | 0 | 0 |
| of which replacement value determined based on a valuation model | – | 4,638 | 4,993 | – | 0 | 0 |

¹ Relates to derivative financial instruments that qualify for hedge accounting.

² Including combined interest rate and foreign exchange swaps.

³ Before impact of master netting agreements.

Derivative financial instruments (continued)

| end of 2017 | Trading | | | Hedging ¹ | | |
|--|-----------------|----------------------------|----------------------------|----------------------|----------------------------|----------------------------|
| | Notional amount | Positive replacement value | Negative replacement value | Notional amount | Positive replacement value | Negative replacement value |
| CHF million | | | | | | |
| Forwards and forward rate agreements | 10,500 | 0 | 0 | 0 | 0 | 0 |
| Swaps | 184,587 | 1,696 | 1,751 | 12,103 | 0 | 0 |
| Options bought and sold (OTC) | 4,959 | 378 | 421 | 0 | 0 | 0 |
| Futures | 8,260 | 0 | 0 | 0 | 0 | 0 |
| Options bought and sold (exchange-traded) | 7 | 1 | 0 | 0 | 0 | 0 |
| Interest rate products | 208,313 | 2,075 | 2,172 | 12,103 | 0 | 0 |
| Forwards and forward rate agreements | 282,865 | 1,164 | 840 | 0 | 0 | 0 |
| Swaps ² | 237 | 8 | 8 | 0 | 0 | 0 |
| Options bought and sold (OTC) | 7,883 | 105 | 95 | 0 | 0 | 0 |
| Foreign exchange products | 290,985 | 1,277 | 943 | 0 | 0 | 0 |
| Forwards and forward rate agreements | 1,112 | 2 | 4 | 0 | 0 | 0 |
| Options bought and sold (OTC) | 843 | 20 | 15 | 0 | 0 | 0 |
| Futures | 3 | 0 | 0 | 0 | 0 | 0 |
| Precious metal products | 1,958 | 22 | 19 | 0 | 0 | 0 |
| Swaps | 5,404 | 128 | 179 | 0 | 0 | 0 |
| Options bought and sold (OTC) | 10,038 | 426 | 279 | 0 | 0 | 0 |
| Futures | 2,903 | 0 | 0 | 0 | 0 | 0 |
| Options bought and sold (exchange-traded) | 32,572 | 511 | 1,129 | 0 | 0 | 0 |
| Equity/index-related products | 50,917 | 1,065 | 1,587 | 0 | 0 | 0 |
| Credit default swaps | 1,666 | 41 | 8 | 0 | 0 | 0 |
| Other credit derivatives | 868 | 6 | 19 | 0 | 0 | 0 |
| Credit derivatives | 2,534 | 47 | 27 | 0 | 0 | 0 |
| Swaps | 53 | 10 | 0 | 0 | 0 | 0 |
| Options bought and sold (OTC) | 62 | 1 | 4 | 0 | 0 | 0 |
| Futures | 65 | 0 | 0 | 0 | 0 | 0 |
| Options bought and sold (exchange-traded) | 288 | 9 | 8 | 0 | 0 | 0 |
| Other derivative products | 468 | 20 | 12 | 0 | 0 | 0 |
| Derivative financial instruments³ | 555,175 | 4,506 | 4,760 | 12,103 | 0 | 0 |
| of which replacement value determined based on a valuation model | – | 4,278 | 4,391 | – | 0 | 0 |

¹ Relates to derivative financial instruments that qualify for hedge accounting.

² Including combined interest rate and foreign exchange swaps.

³ Before impact of master netting agreements.

Positive and negative replacement values before and after consideration of master netting agreements

| end of | 2018 | 2017 |
|--|-------|-------|
| Before consideration of master netting agreements (CHF million) | | |
| Positive replacement values – trading and hedging | 4,701 | 4,506 |
| Negative replacement values – trading and hedging | 5,301 | 4,760 |
| After consideration of master netting agreements | | |
| Positive replacement values – trading and hedging ¹ | 2,442 | 2,621 |
| Negative replacement values – trading and hedging ¹ | 1,306 | 663 |

¹ Netting includes counterparty exposure and cash collateral netting.

Positive replacement values by counterparty type

| end of | 2018 | 2017 |
|------------------------------------|--------------|--------------|
| CHF million | | |
| Banks and securities dealers | 520 | 372 |
| Other counterparties ¹ | 1,922 | 2,249 |
| Positive replacement values | 2,442 | 2,621 |

¹ Primarily related to bilateral OTC derivative contracts with clients.

Fair value hedges

| in | 2018 | 2017 |
|--|-------------|-------------|
| Gains/(losses) on derivative financial instruments recognized in income (CHF million) | | |
| Interest rate products | (62) | 42 |
| Gains/(losses) on derivative financial instruments recognized in income | (62) | 42 |
| Gains/(losses) on hedged items recognized in income (CHF million) | | |
| Interest rate products | 70 | (40) |
| Gains/(losses) on hedged items recognized in income | 70 | (40) |
| Details of fair value hedges (CHF million) | | |
| Net gains/(losses) on the ineffective portion | 8 | 2 |

All gains/(losses) are recognized in net income/(loss) from trading activities and fair value option.

Cash flow hedges

| in | 2018 | 2017 |
|--|------------|------------|
| Deferred unrealized gains/(losses) on derivative financial instruments related to cash flow hedges (CHF million) ¹ | | |
| Balance at beginning of period | (3) | 6 |
| Interest rate products | (8) | (6) |
| Gains/(losses) on derivative financial instruments deferred during reporting period | (8) | (6) |
| Interest rate products ² | (6) | 3 |
| Deferred gains/(losses) on derivative financial instruments reclassified into income | (6) | 3 |
| Balance at end of period | (5) | (3) |
| Details of cash flow hedges (CHF million) | | |
| Net gains/(losses) on the ineffective portion ² | (1) | 1 |

¹ Included in the compensation account within other assets or other liabilities.

² Included in net income/(loss) from trading activities and fair value option.

As of December 31, 2018, the net loss associated with cash flow hedges expected to be reclassified from other assets and other liabilities to the statement of income within the next 12 months was CHF 1 million.

As of December 31, 2018, the maximum length of time over which Credit Suisse (Schweiz) AG hedged its exposure to the

variability in future cash flows for forecasted transactions, excluding those forecasted transactions related to the payment of variable interest on existing financial instruments, was four years.

→ Refer to "Use of derivative financial instruments and hedge accounting" in Note 3 – Risk management, derivatives and hedging activities for further information.

14 Financial investments

| end of | 2018 | | 2017 | |
|---|----------------|------------|----------------|------------|
| | Carrying value | Fair value | Carrying value | Fair value |
| CHF million | | | | |
| Debt securities | 281 | 285 | 307 | 307 |
| of which held-to-maturity | 90 | 94 | 90 | 90 |
| of which available-for-sale | 191 | 191 | 217 | 217 |
| Equity securities | 1 | 6 | 1 | 5 |
| of which qualified participations ¹ | – | – | – | – |
| Real estate ² | 1 | 1 | 1 | 1 |
| Financial investments | 283 | 292 | 309 | 313 |
| of which securities eligible for repurchase transactions in accordance with liquidity regulations | 0 | – | 0 | – |

¹ Includes participations held in financial investments with at least 10% in capital or voting rights.

² Real estate acquired from the lending business (repossessed assets) and classified as held-for-sale is carried at lower of cost and liquidation value.

15 Other assets and other liabilities

| end of | 2018 | 2017 | end of | 2018 | 2017 |
|---|------------------|--------------|---|------------------|------------|
| CHF million | | | CHF million | | |
| Compensation account ¹ | 853 | 1,024 | Indirect taxes and duties | 105 | 88 |
| Coupons | 31 | 74 | Accounts payable for goods and services | 22 | 42 |
| Indirect taxes and duties | 65 | 195 | Settlement accounts | 66 | 35 |
| Receivables under documentary letters of credit | 824 ² | – | Deferred payables under documentary letters of credit | 824 ² | – |
| Other | 310 | 385 | Other | 332 | 313 |
| Other assets | 2,083 | 1,678 | Other liabilities | 1,349 | 478 |

¹ Includes changes in the book values of assets and liabilities that are not recognized in the statement of income, such as hedge effectiveness, impacts from changes in own credit spreads and deferred gains or losses from the sale of debt securities held-to-maturity.

² Refer to "Prior period information" in Note 2 – Accounting and valuation principles for further information.

16 Assets pledged

| end of | 2018 | | 2017 | |
|---------------------------------|---------------------|--------------------|---------------------|--------------------|
| | Carrying value | Actual liabilities | Carrying value | Actual liabilities |
| CHF million ¹ | | | | |
| Mortgage loans | 16,907 ² | 6,868 | 18,425 ² | 6,868 |
| Assets pledged | 16,907 | 6,868 | 18,425 | 6,868 |

¹ Excludes assets pledged in connection with securities lending and borrowing, repurchase agreements and reverse-repurchase agreements.

² Includes a portfolio of mortgage loans with a carrying value of CHF 7,274 million and CHF 9,183 million as of December 31, 2018 and 2017, respectively, which is pledged to Credit Suisse Hypotheken AG under the covered bond program of Credit Suisse AG. The related actual liabilities of CHF 5,524 million and CHF 7,185 million as of December 31, 2018 and 2017, respectively, are recorded in the financial statements of Credit Suisse AG and recognized as a contingent liability by Credit Suisse (Schweiz) AG.

→ Refer to "Joint and several liability" in "Off-balance sheet transactions" for further information.

17 Pension plans

Liabilities due to own pension plans of Credit Suisse (Schweiz) AG as of December 31, 2018 and 2017 of CHF 735 million and CHF 336 million, respectively, are reflected in various liability accounts in the balance sheet of Credit Suisse (Schweiz) AG.

Swiss pension plan

The employees of Credit Suisse (Schweiz) AG are covered by the pension plan of the "Pensionskasse der Credit Suisse Group (Schweiz)" (the Swiss pension plan). Most of the Group's Swiss subsidiaries and a few companies that have close business and financial ties with the Group participate in this plan. The Swiss

pension plan is an independent self-insured pension plan set up as a trust and qualifies as a defined contribution plan (savings plan) under Swiss law.

The Swiss pension plan's annual financial statements are prepared in accordance with Swiss GAAP FER 26 based on the full population of covered employees. Individual annual financial statements for each participating company are not prepared. As a multi-employer plan with unrestricted joint liability for all participating companies, the economic interest in the Swiss pension plan's over- or underfunding is allocated to each participating company based on an allocation key determined by the plan.

Employer contribution reserves

| end of / in | Employer contribution reserves – notional | | Amount subject to waiver | | Employer contribution reserves – net ¹ | | Increase/(Release) of employer contribution reserves included in personnel expenses | |
|--------------------|---|-----------|--------------------------|----------|---|-----------|---|----------|
| | 2018 | 2017 | 2018 | 2017 | 2018 | 2017 | 2018 | 2017 |
| CHF million | | | | | | | | |
| Swiss pension plan | 15 | 15 | 0 | 0 | 15 | 15 | 0 | 0 |
| Total | 15 | 15 | 0 | 0 | 15 | 15 | 0 | 0 |

¹ In line with Swiss GAAP statutory accounting guidance, contributions to the employer contribution reserves are not recorded in the statutory balance sheet of Credit Suisse (Schweiz) AG.

Pension plan economic benefit/(obligation), pension contributions and pension expenses

| end of / in | Over/(Under)-funding | | Economic benefit/(obligation) recorded by CS Schweiz ¹ | | | Pension contributions | | Pension expenses included in personnel expenses | |
|--|----------------------|------------------|---|----------|----------|-----------------------|------------|---|------------|
| | 2018 | 2017 | 2018 | 2017 | Change | 2018 | 2017 | 2018 | 2017 |
| CHF million | | | | | | | | | |
| Swiss pension plan – status overfunded | 694 ² | 933 ² | – | – | – | 173 | 162 | 171 | 166 |
| Total | 694 | 933 | – | – | – | 173 | 162 | 171 | 166 |

¹ In line with Swiss GAAP statutory accounting guidance, the economic benefit of Credit Suisse (Schweiz) AG from its share in the overfunding of the Swiss pension plan is not recorded in the statutory balance sheet of Credit Suisse (Schweiz) AG.

² Represents Credit Suisse (Schweiz) AG's share of 40% and 41% in the total overfunding of the Swiss pension plan of CHF 1,735 million and CHF 2,275 million as of December 31, 2018 and 2017, respectively.

18 Issued structured products

As of December 31, 2018, the total carrying value of issued structured products was CHF 22 million, all related to equity products with own debt. As of December 31, 2017, the total carrying value of issued structured products was CHF 562 million, of which CHF 449 million related to equity products with own debt

and CHF 113 million related to foreign exchange products with own debt. As of December 31, 2018 and 2017, all structured products were placed with Credit Suisse AG and reported in liabilities from other financial instruments held at fair value.

19 Provisions and valuation adjustments

| 2018 | Balance at beginning of period | Change in organization | Utilized for purpose | Reclassifications | Recoveries, interest past due | New charges to income statement | Releases to income statement | Balance at end of period |
|--|--------------------------------|------------------------|----------------------|-------------------|-------------------------------|---------------------------------|------------------------------|--------------------------|
| CHF million | | | | | | | | |
| Provisions for off-balance sheet default risks | 15 | 0 | 0 | (1) | 0 | 9 | (3) | 20 ^{1,2} |
| Provisions for other business risks | 10 | 1 | (7) | 0 | 0 | 3 | (2) | 5 ³ |
| Restructuring provisions | 5 | 0 | (15) | 0 | 0 | 28 | 0 | 18 ⁴ |
| Other provisions | 44 | 0 | (6) | 1 | 0 | 40 | (1) | 78 ⁵ |
| Provisions | 74 | 1 | (28) | 0 | 0 | 80 | (6) | 121 |
| Valuation adjustments for default and country risks ⁶ | 319 | 0 | (39) | 1 | 35 | 132 | (56) | 392 |
| of which valuation adjustments for default risks from impaired receivables | 220 | 0 | (39) | 1 | 35 | 103 | (48) | 272 |
| of which valuation adjustments for inherent risks | 99 | 0 | 0 | 0 | 0 | 29 | (8) | 120 |

¹ Partially discounted at rates between 0.81% and 12.50%.

² Provisions are mainly related to irrevocable loan commitments and guarantees.

³ Provisions are not discounted due to their short-term nature.

⁴ Partially discounted at rates between 0.12% and 0.40%.

⁵ Includes litigation provisions of CHF 65 million and CHF 32 million as of December 31, 2018 and 2017, respectively. Partially discounted at rates between 2.32% and 3.59%.

⁶ Changes in impaired loan classification during the period and related movements in valuation adjustments are reflected on a gross basis.

20 Composition of share capital, conversion and reserve capital

| end of | 2018 | | 2017 | |
|--|-------------|-----------------------------------|-------------|-----------------------------------|
| | Quantity | Total nominal value (CHF million) | Quantity | Total nominal value (CHF million) |
| Share capital | | | | |
| Registered shares (at CHF 1 par value per share) | 100,000,000 | 100 ¹ | 100,000,000 | 100 ¹ |
| Total share capital | | 100 | | 100 |
| Conversion and reserve capital² | | | | |
| Unlimited conversion capital (at CHF 1 par value per share) ³ | unlimited | unlimited | unlimited | unlimited |
| Reserve capital (at CHF 1 par value per share) ⁴ | 200,000,000 | 200 | 200,000,000 | 200 |
| of which used for capital increases | 0 | 0 | 0 | 0 |
| of which reserved for planned capital increases | 0 | 0 | 0 | 0 |

¹ The dividend eligible capital equals the total nominal value. As of December 31, 2018 and 2017, the total nominal value of registered shares was CHF 100,000,000 and fully paid.

² Represents authorized capital.

³ For information on principal characteristics of unlimited conversion capital, refer to Article 5a in the Articles of Association of Credit Suisse (Schweiz) AG.

⁴ For information on principal characteristics of reserve capital, refer to Article 5b in the Articles of Association of Credit Suisse (Schweiz) AG.

Non-distributable reserves

As of December 31, 2018, the amount of non-distributable reserves in accordance with the Swiss Code of Obligations and the articles of association of Credit Suisse (Schweiz) AG was CHF 50 million. Not reflected in this amount are reserves, which Credit Suisse (Schweiz) AG is required to retain in order to meet the regulatory capital requirements as a going concern.

Transactions with shareholders

→ Refer to "Business developments" in "Note 1 – Company details, business developments and subsequent events" for further information on transactions with shareholders.

21 Significant shareholders and groups of shareholders

| end of | 2018 | | | 2017 | | |
|---|----------------------------|-----------------------------------|-------------------|----------------------------|-----------------------------------|-------------------|
| | Number of shares (million) | Total nominal value (CHF million) | Share-holding (%) | Number of shares (million) | Total nominal value (CHF million) | Share-holding (%) |
| Direct shareholders | | | | | | |
| Credit Suisse AG | 100 ¹ | 100 | 100.00 | 100 ¹ | 100 | 100.00 |
| Indirect shareholders through Credit Suisse AG | | | | | | |
| Credit Suisse Group AG ² | 100 | 100 | 100.00 | 100 | 100 | 100.00 |
| Indirect shareholders through Credit Suisse Group AG³ | | | | | | |
| Chase Nominees Ltd. ⁴ | 15 | 15 | 15.19 | 13 | 13 | 12.88 |
| Nortrust Nominees Ltd. ⁴ | 6 | 6 | 5.84 | 5 | 5 | 5.49 |

¹ All shares with voting rights.

² Based on the percentage interest held in shares of Credit Suisse AG as per the share register of Credit Suisse AG on December 31 of the reporting period.

³ Pro-forma numbers calculated based on the percentage interest held in Group shares as per the share register of the Group on December 31 of the reporting period. Includes shareholders registered as nominees.

⁴ Nominee holdings in Group shares exceeding 2% are registered with a right to vote only if the nominee confirms that no individual shareholder holds more than 0.5% of the outstanding share capital or if the nominee discloses the identity of any beneficial owner holding more than 0.5% of the outstanding capital.

Information received from shareholders of the Group not registered in the share register

In addition to the shareholdings registered in the share register of the Group, the Group has obtained and reported to the SIX Swiss Exchange (SIX) information from its shareholders in accordance with the notification requirements of the Swiss Federal Act on

Financial Market Infrastructures and Market Conduct in Securities and Derivatives Trading. These shareholders may hold their shareholdings in Group shares through a nominee. The following shareholder notifications relate to registered voting rights exceeding 5% of all voting rights, which are subject to disclosure in the notes to the financial statements in accordance with Swiss GAAP statutory.

In a disclosure notification that the Group published on November 9, 2013, the Group was notified that as of November 4, 2013, Harris Associates L.P. held 81.5 million shares, or 5.17%, of the registered Group shares issued as of the date of the notified transaction. No further disclosure notification was received from Harris Associates L.P. relating to holdings of registered Group shares since 2013. This position includes the reportable position of Harris Associates Investment Trust (4.97% of the voting rights), as published by the SIX on August 1, 2018.

In a disclosure notification that the Group published on September 6, 2018, the Group was notified that as of August 24, 2018, Qatar Holding LLC held 133.2 million shares, or 5.21% of the voting rights, of the registered Group shares issued as of the date of the notified transaction.

In 2018, the Group received disclosure notifications from Norges Bank that their holdings of registered Group shares and voting rights had fallen below the 5% threshold. The Olayan Group and BlackRock, Inc.'s holdings of registered Group shares and voting rights remained below the 5% threshold both as of December 31, 2018 and as of December 31, 2017.

Shareholders with a qualified participation

As of December 31, 2018, Credit Suisse AG as direct shareholder of Credit Suisse (Schweiz) AG and Credit Suisse Group AG as direct shareholder of Credit Suisse AG are the only shareholders with a qualified participation in accordance with Bank Law.

→ Refer to "Note 23 – Amounts receivable from and amounts payable to related parties" for further information on shareholders with a qualified participation.

22 Shareholdings of the Board of Directors, Executive Board and employees and information on compensation plans

Certain members of the Board also serve on the board of directors or executive board of the Group and Credit Suisse AG. Compensation to such members of the Board is determined by the Group on the basis of their overall function and responsibilities in the Group and paid by different legal entities of the Group depending on work location, local contracts, laws and regulations. Board members who also serve as member of the board of directors or executive board of the Group and Credit Suisse AG receive an annual subsidiary board fee paid in cash, except for the Group Chairman and the Group CEO who do not receive any additional fees from Credit Suisse (Schweiz) AG. Board members who are neither on the board of directors nor the executive board of the Group or Credit Suisse AG receive an annual base fee and chair fees paid in cash. In 2018 and 2017, no Group shares have been awarded to these Board members for services provided in relation to Credit Suisse (Schweiz) AG.

Share-based awards outstanding

| end of | 2018 | | 2017 | |
|--|---|---------------------------|---|---------------------------|
| | Number of share-based awards outstanding in million | Fair value in CHF million | Number of share-based awards outstanding in million | Fair value in CHF million |
| Share-based awards ¹ | | | | |
| Members of the Executive Board | 1.6 | 17 | 1.4 | 24 |
| Employees | 4.7 | 51 | 4.5 | 78 |
| Share-based awards outstanding | 6.3 | 68 | 5.9 | 102 |

¹ All share-based compensation plans of Credit Suisse (Schweiz) AG are plans which are either settled in Group shares or in cash on the basis of the fair value of the Group shares.

Compensation plans

For 2017, Credit Suisse (Schweiz) AG granted 1.6 million share awards with a total value of CHF 29 million, 1.5 million performance share awards with a total value of CHF 26 million and CHF 13 million of Contingent Capital Awards (CCA) as deferred variable incentive compensation on February 15, 2018. The fair value of each share award and performance share award was CHF 17.22, the Group share price on the grant date.

Deferred compensation is awarded to employees with total compensation greater than or equal to CHF 250,000. Employees with total compensation below CHF 250,000 received variable incentive compensation in the form of an immediate cash award. Performance share awards were granted to managing directors and material risk takers and controllers, CCA were granted to managing directors and directors.

In 2018 and 2017, Credit Suisse (Schweiz) AG's total expenses related to deferred compensation plans were CHF 28 million and CHF 69 million, respectively.

For 2018 and 2017, all share-based compensation plans of Credit Suisse (Schweiz) AG were either settled in shares of the Group (Group shares) or in cash on the basis of the fair value of the Group shares.

Share awards

Share awards granted in February 2018 are similar to those granted in February 2017. Each share award granted entitles the holder of the award to receive one Group share, subject to service conditions. Share awards vest over three years with one third of the share awards vesting on each of the three anniversaries of the grant date (ratable vesting). Share awards are expensed over the service period of the awards. The value of the share awards is solely dependent on the Group share price at the time of delivery. The majority of share awards granted include the right to receive dividend equivalents on vested shares.

Credit Suisse (Schweiz) AG's share awards include other awards, such as special awards, which may be granted to new employees. Other share awards entitle the holder to receive one Group share and are generally subject to continued employment with Credit Suisse (Schweiz) AG, contain restrictive covenants and cancellation provisions and generally vest between zero and five years.

Performance share awards

Managing directors and all material risk takers and controllers (employees whose activities are considered to have a potentially material impact on Credit Suisse (Schweiz) AG's risk profile) received a portion of their deferred variable compensation in the form of performance share awards. Performance share awards are similar to share awards, except that the full balance of outstanding performance share awards, including those awarded in prior years, are subject to performance-related malus provisions. The majority of performance share awards granted include the right to exercise dividend equivalents upon vesting.

Performance share awards are subject to a negative adjustment in the event of a loss by the Group's Swiss Universal Bank division or a negative return on equity (ROE) of the Group, whichever results in a larger adjustment. The basis for the ROE calculation may vary from year to year, depending on the Compensation Committee's determination for the year in which the performance shares are granted.

There was no negative adjustment applied to performance share awards granted in 2018 or in previous years.

Contingent Capital Awards

CCA were granted in February 2018 and February 2017 to managing directors and directors as part of the 2017 and 2016 deferred variable compensation and have rights and risks similar to those of certain contingent capital instruments issued by the Group in the market. CCA are scheduled to vest on the third anniversary of the grant date and will be expensed over the vesting period. CCA provide a conditional right to receive semi-annual cash payments of interest equivalents until settled, with rates being dependent upon the vesting period.

CCA granted in 2018 and 2017 receive interest equivalents at a rate of 2.24% and 3.17%, respectively, per annum over the six-month Swiss franc London Interbank Offered Rate and vest three years from the date of grant.

The rates were set in line with market conditions at the time of grant and existing high-trigger and low-trigger contingent capital instruments that the Group has issued.

As CCA qualify as going concern loss-absorbing capital of the Group and Credit Suisse (Schweiz) AG, the timing and form of distribution upon settlement is subject to approval by FINMA. At settlement, employees will receive either a contingent capital instrument or a cash payment based on the fair value of the CCA. The fair value will be determined by the Group. In the case of a cash settlement, the CCA award will be converted into Swiss francs.

CCA have loss-absorbing features such that prior to settlement, the principal amount of the CCA would be written down to zero and forfeited if any of the following trigger events were to occur:

- the Group's reported common equity tier 1 (CET1) ratio falls below 7%; or
- FINMA determines that cancellation of the CCA and other similar contingent capital instruments is necessary, or that the Group requires public sector capital support, in either case to prevent it from becoming insolvent or otherwise failing.

Contingent Capital share awards

The Group executed a voluntary exchange offer, under which employees had the right to voluntarily convert all or a portion of their respective CCA into Contingent Capital share awards at a conversion price of CHF 14.57. Each Contingent Capital share award had a grant-date fair value of CHF 14.45 and contains the same contractual term, vesting period, performance criteria and other terms and conditions as the original CCA.

23 Amounts receivable from and amounts payable to related parties

| end of | 2018 | | 2017 | |
|---|--------------------|-----------------|--------------------|-----------------|
| | Amounts receivable | Amounts payable | Amounts receivable | Amounts payable |
| CHF million | | | | |
| Shareholders with a qualified participation | 6,457 | 24,653 | 11,201 | 23,138 |
| Group companies | 6,063 | 223 | 6,272 | 195 |
| Affiliated companies | 4,786 | 2,673 | 6,427 | 2,514 |
| Members of governing bodies ¹ | 93 | 66 | 68 | 90 |

¹ Includes both the governing bodies of Credit Suisse (Schweiz) AG and the governing bodies of its direct and indirect holding companies Credit Suisse AG and Credit Suisse Group AG. Governing bodies include members of the Board of Directors, the Executive Board and the statutory auditors and companies controlled by members of each of these bodies.

Significant off-balance sheet transactions

As part of the normal course of business, Credit Suisse (Schweiz) AG issues guarantees, loan commitments and enters into other agreements with group companies which are recorded as off-balance sheet transactions by Credit Suisse (Schweiz) AG. As of December 31, 2018 and 2017, Credit Suisse (Schweiz) AG had contingent liabilities of CHF 5,530 million and CHF 7,414 million, respectively, mainly related to the covered bond program of Credit Suisse AG.

Additional information on related party transactions

Transactions with related parties are carried out on an arm's length basis.

→ Refer to "Off-balance sheet transactions" and "Note 1 – Company details, business developments and subsequent events" for further information on related party transactions.

Sales and Trading Services

On November 20, 2016, with retrospective effect between the parties as of August 1, 2016, Credit Suisse (Schweiz) AG entered into a contractual relationship with Credit Suisse AG. The purpose of this contractual relationship was to collaboratively operate the Swiss portion of the former STS business. Following the transfer of the majority of this business to other subsidiaries of the Group in 2018, this contractual relationship has been discontinued with effect as of September 30, 2018.

24 Total assets by country rating

| end of | 2018 | | 2017 | |
|---|--------------------------|---------------|--------------------------|---------------|
| | CHF million ² | % | CHF million ² | % |
| Internal country rating ¹ | | | | |
| AAA | 7,424 | 3.3% | 17,513 | 7.9% |
| AA | 10,119 | 4.5% | 4,841 | 2.2% |
| A | 1,501 | 0.7% | 862 | 0.4% |
| BBB | 792 | 0.4% | 504 | 0.2% |
| BB | 1,392 | 0.6% | 1,050 | 0.5% |
| B | 648 | 0.3% | 167 | 0.1% |
| CCC | 37 | 0.0% | 266 | 0.1% |
| C | 0 | 0.0% | 6 | 0.0% |
| Foreign assets | 21,913 | 9.8% | 25,209 | 11.3% |
| Domestic assets | 200,834 | 90.2% | 197,722 | 88.7% |
| Total assets | 222,747 | 100.0% | 222,931 | 100.0% |

¹ Internal ratings are calibrated to the long-term issuer credit ratings of Standard & Poor's for the respective sovereigns. Internal country ratings may differ from Standard & Poor's respective country ratings.

² Net balance sheet exposure by country rating of risk domicile.

25 Fiduciary transactions

| end of | 2018 | 2017 |
|---|--------------|--------------|
| CHF million | | |
| Fiduciary placements with third-party institutions | 2,960 | 2,286 |
| Fiduciary placements with group companies and affiliated institutions | 4,275 | 4,460 |
| Fiduciary transactions | 7,235 | 6,746 |

26 Assets under management

Assets under management

Assets under management include assets for which Credit Suisse (Schweiz) AG provides investment advisory or discretionary asset management services. The classification of assets under management is conditional upon the nature of the services provided by Credit Suisse (Schweiz) AG and the clients' intentions. Assets are individually assessed on the basis of each client's intentions and objectives and the nature of the banking services provided to that client. In order to be classified as assets under management, Credit Suisse (Schweiz) AG must currently or in the foreseeable future expect to provide a service where the involvement of Credit Suisse (Schweiz) AG's banking or investment expertise (e.g., as asset manager or investment advisor) is not purely executional or custodial in nature.

Assets under custody are client assets held mainly for execution-related or safekeeping/custody purposes only and therefore are not considered assets under management since Credit Suisse (Schweiz) AG does not generally provide asset allocation or financial advice.

Assets of corporate clients and public institutions that are used primarily for cash management or transaction executional purposes for which no investment advice is provided are classified as commercial assets or assets under custody and therefore do not qualify as assets under management.

For the purpose of classifying assets under management, clients with multiple accounts are assessed from an overall relationship perspective. Accounts that are clearly separate from the remainder of the client relationship and represent assets held for custody purposes only are not included as assets under management.

The initial classification of the assets may not be permanent as the nature of the client relationship is reassessed on an on-going basis. If changes in client intent or activity warrant reclassification between client asset categories, the required reclassification adjustments are made immediately when the change in intent or activity occurs.

Reclassifications between assets under management and assets held for transaction-related or custodial purposes result in corresponding net asset inflows or outflows.

Assets under management

| end of | 2018 | 2017 |
|--|--------------|--------------|
| CHF billion | | |
| Assets with discretionary mandates | 119.7 | 121.8 |
| Other assets under management | 409.5 | 423.4 |
| Assets under management (including double counting) | 529.2 | 545.2 |
| of which double counting | – | – |

Changes in assets under management

| | 2018 | 2017 |
|--|--------------|--------------|
| CHF billion | | |
| Balance at beginning of period | 545.2 | 514.8 |
| Net new assets/(Net asset outflows) | 11.0 | (9.8) |
| Market movements, interest, dividends and foreign exchange | (26.8) | 40.8 |
| of which market movements, interest and dividends ¹ | (25.2) | 39.6 |
| of which foreign exchange | (1.6) | 1.2 |
| Other effects | (0.2) | (0.6) |
| Balance at end of period | 529.2 | 545.2 |

¹ Net of commissions and other expenses and net of interest expenses charged.

Net new assets

Net new assets measure the degree of success in acquiring assets under management or changes in assets under management through warranted reclassifications. The calculation is based on the direct method, taking into account individual cash payments, security deliveries and cash flows resulting from loan increases or repayments. Interest and dividend income credited to clients and commissions, interest and fees charged for banking services are not taken into account when calculating net new assets, as such charges are not directly related to the success of Credit Suisse (Schweiz) AG in acquiring assets under management. Similarly, changes in assets under management due to currency and market volatility as well as asset inflows and outflows due to the acquisition or divestiture of businesses are not part of net new assets.

Proposed appropriation of retained earnings and capital distribution

Proposed appropriation of retained earnings

| | |
|--|-------------|
| end of | 2018 |
| Retained earnings (CHF million) | |
| Retained earnings carried forward | 14 |
| Net profit | 890 |
| Retained earnings available for appropriation | 904 |
| Dividend | (900) |
| Retained earnings to be carried forward | 4 |

Proposed distribution out of capital contribution reserves

| | |
|---|---------------|
| end of | 2018 |
| Capital contribution reserves (CHF million) ¹ | |
| Balance before distribution | 13,222 |
| Distribution | (200) |
| Balance after distribution | 13,022 |

¹ Capital contribution reserves represent legal capital reserves.

List of abbreviations

A

| | |
|-------|--|
| A-IRB | Advanced internal ratings-based approach |
| ALMC | Asset Liability Management Committee |
| AMA | Advanced measurement approach |

B

| | |
|-------|--------------------|
| Board | Board of Directors |
|-------|--------------------|

C

| | |
|-------|--|
| CARMC | Capital Allocation & Risk Management Committee |
| CCA | Contingent Capital Awards |
| CEO | Chief Executive Officer |
| CET1 | Common equity tier 1 |
| CFO | Chief Financial Officer |
| CRO | Chief Risk Officer |

E

| | |
|------|--|
| ERCF | Enterprise risk and controls framework |
|------|--|

F

| | |
|-------|--|
| FINMA | Swiss Financial Market Supervisory Authority FINMA |
|-------|--|

I

| | |
|----|------------------------|
| IT | Information technology |
|----|------------------------|

O

| | |
|-----|------------------|
| OTC | Over-the-counter |
|-----|------------------|

R

| | |
|------|--|
| RMC | Risk Management Committee |
| ROE | Return on equity |
| RRC | Reputational Risk Committee |
| RPSC | Risk Processes & Standards Committee |
| RRSC | Reputational Risk & Sustainability Committee |

S

| | |
|-----|----------------------------|
| SIX | SIX Swiss Exchange |
| STS | Sales and Trading Services |

T

| | |
|------|-------------------------------|
| TLAC | Total loss absorbing capacity |
|------|-------------------------------|

U

| | |
|---------|---|
| US | United States of America |
| US GAAP | US generally accepted accounting principles |

V

| | |
|-----|-----------------|
| VaR | Value-at-risk |
| VAT | Value added tax |

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, targets 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 law.

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, targets, goals, 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 EU, the US or other developed countries or in emerging markets in 2019 and beyond;
- the direct and indirect impacts of deterioration or slow recovery in residential and commercial real estate markets;
- adverse rating actions by credit rating agencies in respect of us, sovereign issuers, structured credit products or other credit-related exposures;
- the ability to achieve our strategic goals, including those related our targets and financial goals;
- 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 cyber attacks, information or security breaches or technology failures on our business or operations;
- the adverse resolution of litigation, regulatory proceedings, and other contingencies;
- 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 or tax standards, policies or practices in countries in which we conduct our operations;
- the potential effects of 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; and
- other unforeseen or unexpected events and our success at managing these and the risks involved in the foregoing.

We caution you that the foregoing list of important factors is not exclusive. When evaluating forward-looking statements, you should carefully consider the foregoing factors and other uncertainties and events.



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