

# VIII

## **Parent company financial statements – Credit Suisse (Bank)**

<b>Report of the Statutory Auditor</b>	<b>505</b>
<b>Parent company financial statements</b>	<b>510</b>
<b>Notes to the financial statements</b>	<b>513</b>
<b>Proposed appropriation of retained earnings</b>	<b>546</b>

## Notes to the financial statements

1 Business activities, developments and subsequent events	513
2 Accounting and valuation principles	516
3 Risk management, use of derivative financial instruments and hedge accounting	519
4 Net income from interest activities	526
5 Net income/(loss) from trading activities and fair value option	527
6 Personnel expenses	527
7 General and administrative expenses	527
8 Increase/(release) of provisions and other valuation adjustments, losses and extraordinary income and expenses	528
9 Taxes	528
10 Assets and liabilities from securities lending and borrowing, repurchase and reverse repurchase agreements	529
11 Collateral and impaired loans	529
12 Trading assets and liabilities and other financial instruments held at fair value	531
13 Derivative financial instruments	532
14 Financial investments	535
15 Other assets and other liabilities	535
16 Assets pledged	536
17 Pension plans	536
18 Issued structured products	537
19 Unsecured senior debt and structured notes	538
20 Provisions and valuation adjustments	538
21 Composition of share capital, conversion and reserve capital	539
22 Significant shareholders and groups of shareholders	540
23 Shareholdings of the Board of Directors, Executive Board and employees and information on compensation plans	541
24 Amounts receivable from and amounts payable to related parties	543
25 Total assets by country rating	544
26 Fiduciary transactions	544
27 Assets under management	544



# Report of the Statutory Auditor

To the General Meeting of Credit Suisse AG, Zurich

## Report of the Statutory Auditor on the Financial Statements

As statutory auditor, we have audited the accompanying financial statements of Credit Suisse AG, which comprise the balance sheet, statement of income, statement of changes in equity and notes for the year ended December 31, 2016.

### 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 Credit Suisse AG'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, 2016, comply with Swiss law and Credit Suisse AG's articles of association.



### Report on Key Audit Matters based on the circular 1/2015 of the Federal Audit Oversight Authority



Valuation of financial instruments reported at fair value



Provisions for litigation and regulatory actions



Valuation of the allowance for loan losses



Valuation of participations

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the financial statements as of and for the year ended December 31, 2016. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.



Valuation of financial instruments reported at fair value

#### Key Audit Matter

Credit Suisse AG reports financial assets reported at fair value of CHF 17.9 billion and financial liabilities reported at fair value of CHF 62.9 billion as of December 31, 2016. These financial assets represented 3.5% of total assets and these financial liabilities represented 13.5% of total liabilities as of December 31, 2016.

The fair value of the majority of Credit Suisse AG's financial instruments is based on quoted prices in active markets or observable inputs.

In addition, Credit Suisse AG holds financial instruments for which no prices are available and which have little or no observable inputs. For these financial instruments fair value is determined through the application of valuation techniques, which often involve the exercise of judgment by management including the use of assumptions and estimates. In particular for financial instruments which do not have directly observable market prices, judgment is often required to determine modelling assumptions that are used in the determination of fair value. Credit Suisse AG also has certain financial instruments that utilize significant, judgmental inputs with varying degrees of observability for purposes of determining fair value. Further, Credit Suisse AG applies significant judgment in calculating certain valuation adjustments

#### Our response

We assessed and tested the design and operating effectiveness of the key controls over financial reporting with respect to the valuation of financial instruments reported at fair value. This included controls over independent price verification, valuation model approval and the calculation, validation and recording of valuation adjustments.

For a sample of financial instruments, we examined the appropriateness of models used and valuation inputs or data. We compared observable inputs and data against independent sources and externally available market data.

For a sample of instruments which do not have directly observable market prices, we critically examined and challenged the assumptions and models used or re-performed an independent valuation assessment, by reference to what we considered to be available alternative methods and sensitivities to key factors.

We also evaluated the methodology and inputs used in determining key judgmental valuation adjustments by critically examining and challenging these assumptions and models, and performing recalculations for a sample of these adjustments.

We made use of our own valuation specialists in performing the above procedures, in particular in relation



including credit, debit and funding valuation adjustments.

to the most judgmental financial instruments, models, methodologies and assumptions.

For further information on the valuation of financial instruments reported at fair value refer to the following:

- Note 2 Accounting and valuation principles, "Trading assets and liabilities"
- Note 12 Trading assets and liabilities and other financial instruments held at fair value



#### Provisions for litigation and regulatory actions

##### Key Audit Matter

Credit Suisse AG is involved in a number of judicial, regulatory and arbitration proceedings concerning matters arising in connection with the conduct of its businesses. The outcome of such cases is dependent on the future outcome of continuing legal and regulatory processes. Consequently, the calculations of the provisions are subject to inherent uncertainty as they rely on management judgment about the likelihood and amount of liabilities arising from litigation and regulatory claims.

##### Our response

We assessed and tested the design and operating effectiveness of the key controls over financial reporting with respect to provisions for litigation and regulatory actions. This included controls over the valuation of the litigation provisions and their approval, review and disclosure.

We evaluated Credit Suisse AG's assessment of the nature and status of litigation, claims and regulatory actions. We considered the legal advice received by Credit Suisse AG from in-house counsel, as well as external counsel, when relevant, for certain of the more significant cases.

We examined Credit Suisse AG's conclusions with respect to the provisions and disclosures made for significant cases, considering the results of corroborative information obtained from management. In view of the significance of the judgments required, we examined the more significant provisions in detail. For the significant cases, we obtained correspondence directly from Credit Suisse AG's outside attorneys and, where appropriate, performed corroborative inquiry of outside counsel and tested data and inputs used by management in determining their litigation provisions.

For further information on provisions for litigation and regulatory actions refer to the following:

- Note 2 Accounting and valuation principles, "Provisions"
- Note 20 Provisions and valuation adjustments



### Valuation of the allowance for loan losses

#### Key Audit Matter

Credit Suisse AG reports gross loans of CHF 186.7 billion and has recorded an allowance for loan losses of CHF 1.3 billion as of December 31, 2016.

The valuation of the allowance for loan losses relies on the application of significant management judgment and the use of different modelling techniques and assumptions. The specific allowance for loan losses involves judgment to estimate the recoverable amount and the collateral value. The collective allowance for loan losses involves judgment in determining the methodology and parameters in calculating the allowance at a portfolio level.

#### Our response

We assessed and tested the design and operating effectiveness of the key controls over financial reporting with respect to the valuation of the allowance for loan losses. This included controls over the calculation, approval, recording and monitoring of the allowance for loan losses. This also included controls over model approval, validation and approval of key data inputs and the qualitative considerations for potential impairment that were not captured by management's models.

For a sample of loan loss allowances calculated on an individual basis we tested the assumptions underlying the impairment identification and quantification including forecasts of future cash flows, valuation of underlying collateral and estimates of recovery on default. We also examined a sample of loans which had not been identified by management as impaired and formed our own opinion about collectability.

For a sample of loan loss allowances calculated on a collective basis we tested the underlying models including the model approval and validation process. We also tested the reasonableness of the inputs to those models, such as recovery rates, by comparing data and assumptions made to external benchmarks, when available.

For further information on the valuation of allowance for loan losses refer to the following:

- Note 2 Accounting and valuation principles, "Due from customers and mortgage loans"
- Note 3 Risk management, "Credit Risk"
- Note 11 Collateral and impaired loans



### Valuation of participations

#### Key Audit Matter

Credit Suisse AG reports participations of CHF 74.1 billion as of December 31, 2016. The participations portfolio consists of investments in subsidiary entities mainly operating in the banking and finance industry.

Participations are valued at acquisition cost less impairment. For the purpose of impairment testing, the portfolio valuation method is applied, and therefore impairment is assessed on the level of the entire portfolio of participations and not individually for each participation. The valuation of participations

#### Our response

We assessed and tested the design and implementation of the key controls over financial reporting with respect to the valuation of participations. This included controls over the identification and measurement of impairments, the evaluation of the valuation methodology, key inputs and assumptions used in the determination of the participation value, and management's annual comparison of legal entity plans to past performance.

For a sample of participations, we evaluated key assumptions applied in performing the valuation. We



involves judgment in the projections and assumptions used our own valuation specialists to critically examine used, which are sensitive to the expected future and challenge the key assumptions applied by market developments that could affect the profitability benchmarking them against independent data. of these entities.

For further information on the valuation of participations refer to the following:

- Note 2 Accounting and valuation principles, "Participations"

### 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 Credit Suisse AG's articles of association. We recommend that the financial statements submitted to you be approved.

KPMG AG

Nicholas Edmonds  
Licensed Audit Expert  
Auditor in Charge

Ralph Dicht  
Licensed Audit Expert

Zurich, Switzerland  
March 24, 2017

# Parent company financial statements

## Statements of income

	Reference to notes	2016	in 2015
<b>Statements of income (CHF million)</b>			
Interest and discount income		8,188	8,583
Interest and dividend income from trading activities		627	744
Interest and dividend income from financial investments		5	9
Interest expense		(5,326)	(4,454)
<b>Gross income from interest activities</b>		<b>3,494</b>	<b>4,882</b>
(Increase)/release of allowance for default risks and losses from interest activities		(456)	(463)
<b>Net income from interest activities</b>	4	<b>3,038</b>	<b>4,419</b>
Commission income from securities trading and investment activities		3,008	3,913
Commission income from lending activities		812	859
Commission income from other services		626	722
Commission expense		(724)	(590)
<b>Net income from commission and service activities</b>		<b>3,722</b>	<b>4,904</b>
<b>Net income/(loss) from trading activities and fair value option</b>	5	<b>(2,408)</b>	<b>346</b>
Income/(loss) from the disposal of financial investments		7	15
Income from participations		206	629
Income from real estate		24	31
Other ordinary income		1,087	425
Other ordinary expenses		(405)	(309)
<b>Net income from other ordinary activities</b>		<b>919</b>	<b>791</b>
Personnel expenses	6	3,576	4,199
General and administrative expenses	7	3,106	3,098
<b>Total operating expenses</b>		<b>6,682</b>	<b>7,297</b>
Impairment of participations, depreciation and amortization of tangible fixed assets and intangible assets		1,459	5,401
Increase/(release) of provisions and other valuation adjustments, and losses	8	86	461
<b>Operating loss</b>		<b>(2,956)</b>	<b>(2,699)</b>
Extraordinary income	8	523	443
Extraordinary expenses	8	0	(24)
Taxes	9	(404)	(597)
<b>Net loss</b>		<b>(2,837)</b>	<b>(2,877)</b>



## Balance sheets

	Reference to notes	2016	end of 2015
<b>Assets (CHF million)</b>			
Cash and other liquid assets		67,450	74,949
Due from banks		99,666	109,513
Securities borrowing and reverse repurchase agreements	10	40,783	24,172
Due from customers	11	180,426	241,190
Mortgage loans	11	4,952	115,779
Trading assets	12	17,586	31,710
Positive replacement values of derivative financial instruments	13	8,098	13,934
Other financial instruments held at fair value	12	314	0
Financial investments	14	6,956	2,835
Accrued income and prepaid expenses		3,624	2,805
Participations		74,085	40,415
Tangible fixed assets		2,592	2,669
Intangible assets		5	11
Other assets	15	1,263	2,028
<b>Total assets</b>		<b>507,800</b>	<b>662,010</b>
Total subordinated receivables		1,906	1,819
of which receivables subject to contractual mandatory conversion and/or cancellation		51	49
<b>Liabilities and shareholder's equity (CHF million)</b>			
Due to banks		57,569	70,875
Securities lending and repurchase agreements	10	21,709	11,239
Customer deposits		144,788	298,965
Trading liabilities	12,18	1,513	1,273
Negative replacement values of derivative financial instruments	13	8,055	13,271
Liabilities from other financial instruments held at fair value	12	61,411	56,002
Medium-term notes		0	759
Bonds and mortgage-backed bonds		164,958	159,134
Accrued expenses and deferred income		4,954	5,068
Other liabilities	15	445	685
Provisions	20	588	796
<b>Total liabilities</b>		<b>465,990</b>	<b>618,067</b>
Share capital	21	4,400	4,400
Legal capital reserves		33,330	32,616
of which capital contribution reserves		32,766	32,052
Legal income reserves		6,081	6,081
Voluntary income reserves		610	610
Retained earnings		226	3,113
Net loss		(2,837)	(2,877)
<b>Total shareholder's equity</b>		<b>41,810</b>	<b>43,943</b>
<b>Total liabilities and shareholder's equity</b>		<b>507,800</b>	<b>662,010</b>
Total subordinated liabilities		22,616	23,994
of which liabilities subject to contractual mandatory conversion and/or cancellation		7,312	9,219

## Off-balance sheet transactions

	2016	2015
<b>Off-balance sheet transactions (CHF million)</b>		
Contingent liabilities	170,909	182,050
Irrevocable commitments	95,213	120,654
Obligations for calls on shares and additional payments	155	61

## Parent company financial statements

Contingent liabilities to other bank entities 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 AG (Bank parent company) 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, the Bank parent company transferred its universal bank business for Swiss customers, comprising a significant part of the division Swiss Universal Bank and parts of STS Trading, a business area providing sales and trading services, to Credit Suisse (Schweiz) AG (CS Schweiz). 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, the Bank parent company 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 CS Schweiz. With the exception of certain claims of employees becoming due up to the date upon which the employment relationship could ordinarily have been terminated, or was terminated by the employee if the employee declined to transfer to CS Schweiz, the Bank parent company has no liability for obligations incurred by CS Schweiz after the asset transfer date.

The Bank parent company entered into a contractual arrangement under which it assumed joint and several liability with respect to liabilities of CS Schweiz arising in connection with CS Schweiz's roles under the covered bonds program.

The Bank parent company is a member of Credit Suisse Group AG's Swiss VAT group and therefore subject to joint and several liability according to Art. 15 para. 1 lit. c of the Swiss VAT Act.

**Deposit insurance guarantee programs**

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 Bank parent company's contribution will be calculated based on its share of privileged deposits in proportion to total privileged deposits. Based on FINMA's estimate for the Bank parent company, the Bank's share in the deposit insurance guarantee program for the period July 1, 2016 to June 30, 2017 is CHF 500 million. This deposit insurance guarantee was reflected in contingent liabilities.

► Refer to "Note 24 – Amounts receivable from and amounts payable to related parties" for further information off-balance sheet transactions.

**Statement of changes in equity**

	Share capital	Legal capital reserves	Legal income reserves	Voluntary income reserves	Retained earnings	Net profit/(loss)	Total shareholder's equity
<b>2016 (CHF million)</b>							
<b>Balance at beginning of period</b>	<b>4,400</b>	<b>32,616</b>	<b>6,081</b>	<b>610</b>	<b>3,113</b>	<b>(2,877)</b>	<b>43,943</b>
Appropriation of net loss	–	–	–	–	(2,877)	2,877	–
Capital contributions	–	714 <sup>1</sup>	–	–	–	–	714
Dividends and other distributions	–	–	–	–	(10)	–	(10)
Net loss	–	–	–	–	–	(2,837)	(2,837)
<b>Balance at end of period</b>	<b>4,400</b>	<b>33,330<sup>2</sup></b>	<b>6,081</b>	<b>610</b>	<b>226</b>	<b>(2,837)</b>	<b>41,810</b>

<sup>1</sup> Represents a-fonds-perdu contributions to capital contribution reserves of CHF 400 million and CHF 310 million in May and June 2016, respectively, and an a-fonds-perdu contribution in kind of CHF 4 million in July 2016 by Credit Suisse Group AG.

<sup>2</sup> Includes capital contribution reserves of CHF 32,766 million. Distributions from capital contribution reserves are free of Swiss withholding tax and are not subject to income tax for Swiss resident individuals holding the shares as a private investment.

# Notes to the financial statements

## 1 Business activities, developments and subsequent events

### Business activities

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

As of December 31, 2016, the Bank parent company had total assets of CHF 507.8 billion and shareholder's equity of CHF 41.8 billion.

The Bank parent company is a 100% subsidiary of Credit Suisse Group AG (Group parent company) domiciled in Switzerland.

The Bank parent company provides private banking and investment banking services which include comprehensive advice and a wide range of financial solutions to private, corporate and institutional clients. Private clients include ultra-high-net-worth and high-net-worth individuals around the globe. The corporate and institutional banking business serves large corporate clients, small and medium-sized enterprises, institutional clients and financial institutions. Services to affluent and retail clients in Switzerland and to corporate and institutional clients with a focus on the Swiss home market are provided by CS Schweiz, a 100% banking subsidiary of the Bank parent company which started operations on November 20, 2016. Its service offering to private, corporate and institutional clients comprise of asset management services, which includes a wide range of investment products and solutions across a diversified range of asset classes, with a focus on alternative, traditional and multi-asset portfolios in many areas with a broad offering for emerging markets-related investment opportunities.

### Number of employees

end of	2016	2015
<b>Number of employees (full-time equivalents)</b>		
Switzerland	8,950	16,120
Abroad	4,940	4,650
<b>Total</b>	<b>13,890</b>	<b>20,770</b>

### Business developments

#### Business transfer to CS Schweiz

On November 20, 2016, the Bank parent company transferred its universal bank business for Swiss customers, comprising a significant part of the division Swiss Universal Bank and parts of the business area STS Trading to CS Schweiz. The purpose of this transfer was to implement regulatory requirements in connection with Swiss "Too Big To Fail" legislation and the Swiss systematically relevant functions as well as the strategic realignment of the Group. This business transfer was executed through a transfer of

assets and liabilities in accordance with the Swiss Merger Act. The asset transfer agreement entered into between the Bank parent company and CS Schweiz, dated as of November 17, 2016 and completed on November 20, 2016, contained the elements required by the Swiss Merger Act, namely the corporate name, registered office and legal form of the Bank parent company and CS Schweiz, the transferred business (including an inventory) and excluded assets, liabilities and relationships, the total value of the assets transferred, the consideration and a list of employee relationships transferred with the asset transfer. The asset transfer agreement also stipulated the retroactive effect of the asset transfer as of August 1, 2016 with respect to the benefits and risks, the transfer of certain roles relating to the Bank parent company's covered bonds program, and certain indemnity undertakings of CS Schweiz for the benefit of the Bank parent company and of the Bank parent company for the benefit of CS Schweiz in connection with the asset transfer. In connection with the aforementioned asset transfer agreement, the Bank parent company also undertook to provide CS Schweiz with additional bail-in capital in the form of a loan at market terms in the amount of CHF 3.3 billion which, for purposes of, and during restructuring proceedings with respect to, CS Schweiz, would be subordinated to selected operative claims. The asset transfer agreement is governed by Swiss law and provides for the jurisdiction of an arbitration tribunal in accordance with the Swiss Rules of International Arbitration of the Swiss Chambers of Commerce. The transfer included total assets of CHF 221,079 million and total liabilities of CHF 209,954 million for a cash consideration of CHF 100 million, paid from the proceeds of the CHF 20 million share capital issued in connection with the incorporation of CS Schweiz on April 29, 2015 and the capital increase of CHF 80 million on October 19, 2016. The resulting surplus of CHF 11,025 million between the value of net assets transferred and the consideration paid was recorded as a capital contribution to legal capital reserves. In connection with the asset transfer, CS Schweiz also recognized intangible assets of CHF 3,525 million with the corresponding balance recorded in legal capital reserves. The intangible assets reflected the value of the client base and goodwill related to the business transferred. By operation of the Swiss Merger Act, the Bank parent company 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 CS Schweiz. As a result of the transfer, the transferred business is directly conducted, the transferred assets directly held, and the transferred liabilities assumed, by CS Schweiz.

## Reconciliation of pre- and post-transfer balance sheet

	Balance as of July 31, 2016	Transfer of third-party assets and liabilities	Intercompany assets and liabilities <sup>1</sup>	Participation and other items <sup>2</sup>	Balance as of August 1, 2016
<b>Assets (CHF million)</b>					
Cash and other liquid assets	90,690	(40,363)	–	–	50,327
Due from banks	112,189	(4,194)	22,973	–	130,968
Securities borrowing and reverse repurchase agreements	37,577	(18,722)	620	–	19,475
Due from customers	205,632	(27,245)	–	–	178,387
Mortgage loans	116,913	(111,789)	–	–	5,124
Trading assets	25,503	(5,675)	–	–	19,828
Positive replacement values of derivative financial instruments	13,367	(4,123)	838	–	10,082
Financial investments	3,090	(281)	–	–	2,809
Accrued income and prepaid expenses	3,061	(512)	6	–	2,555
Participations	60,082	(112)	–	11,025	70,995
Tangible fixed assets	2,661	(105)	–	–	2,556
Intangible assets	8	–	–	–	8
Other assets	1,506	(2,235)	–	1,031	302
<b>Total assets</b>	<b>672,279</b>	<b>(215,356)</b>	<b>24,437</b>	<b>12,056</b>	<b>493,416</b>
<b>Liabilities and shareholder's equity (CHF million)</b>					
Due to banks	67,407	(10,066)	3,063	–	60,404
Securities lending and repurchase agreements	12,307	(5,568)	–	–	6,739
Customer deposits	295,514	(154,763)	–	–	140,751
Trading liabilities	1,901	(835)	–	–	1,066
Negative replacement values of derivative financial instruments	11,197	(5,937)	1,321	–	6,581
Liabilities from other financial instruments held at fair value	62,308	(556)	1,322	–	63,074
Medium-term notes	622	(622)	–	–	0
Bonds and mortgage-backed bonds	171,548	(6,300)	5	–	165,253
Accrued expenses and deferred income	5,641	(575)	12	–	5,078
Other liabilities	526	(234)	–	931	1,223
Provisions	817	(61)	–	–	756
<b>Total liabilities</b>	<b>629,788</b>	<b>(185,517)</b>	<b>5,723</b>	<b>931</b>	<b>450,925</b>
Share capital	4,400	–	–	–	4,400
Legal capital reserves	33,364	–	–	–	33,364
of which capital contribution reserves	32,766	–	–	–	32,766
Legal income reserves	6,081	–	–	–	6,081
Voluntary income reserves	610	–	–	–	610
Retained earnings	192	–	–	–	192
Net loss	(2,156)	–	–	–	(2,156)
<b>Total shareholder's equity</b>	<b>42,491</b>	<b>–</b>	<b>–</b>	<b>–</b>	<b>42,491</b>
<b>Total liabilities and shareholder's equity</b>	<b>672,279</b>	<b>(185,517)</b>	<b>5,723</b>	<b>931</b>	<b>493,416</b>

<sup>1</sup> As a result of the business transfer, certain internal transactions between businesses and functions within the Bank parent company became intercompany transactions between the Bank parent company and CS Schweiz as of August 1, 2016. These transactions mainly relate to central treasury activities; the corresponding balances were included in the transfer balance sheet.

<sup>2</sup> Includes the Bank parent company's participation in CS Schweiz, the consideration from CS Schweiz related to the transfer of assets and liabilities and the impact from compensation account netting.

## Reconciliation of pre- and post-transfer off-balance sheet transactions

	Balance as of July 31, 2016	Transfer of third-party positions	Intercompany positions <sup>1</sup>	Balance as of August 1, 2016
<b>Off-balance sheet transactions (CHF million)</b>				
Contingent liabilities	180,781	(11,782)	1,524	170,523
Irrevocable commitments	100,701	(9,188)	0	91,513
Obligations for calls on shares and additional payments	49	(47)	0	2

<sup>1</sup> As a result of the business transfer, certain internal transactions between businesses and functions within the Bank parent company became intercompany transactions between the Bank parent company and CS Schweiz as of August 1, 2016.

With respect to transferred employees, the employment relationship and all attendant rights and obligations passed from the Bank parent company to CS Schweiz as of the day of the transfer, unless the employee refused such transfer. Where the transferred relationship was governed by a collective employment contract, CS Schweiz is obligated to abide by it for one year unless it expires or is terminated sooner. In the event that an employee refused the transfer, the employment relationship ends on expiry of the statutory notice period and until then, CS Schweiz and the respective employee are obliged to perform the contract. The Bank parent company and CS Schweiz are jointly and severally liable for claims of employees arising under employment contracts and which become due up to the date upon which the employment relationship could ordinarily have been terminated or was terminated by the employee, if the employee declined to transfer to CS Schweiz.

▶ Refer to "Off-balance sheet transactions" for further information on joint and several liabilities related to asset transfers under the Swiss Merger Act and on the contractual joint and several liability entered into in connection with the covered bonds program of the Bank parent company.

### Other business developments

In March 2016, the Bank parent company entered into a share transfer agreement with the J. Safra Sarasin Group with respect to the sale and transfer of all shares of Credit Suisse (Gibraltar) Limited by the Bank parent company to the J. Safra Sarasin Group (entity sale). The transaction closed on October 28, 2016. The Group will continue providing certain services to Credit Suisse (Gibraltar) Limited for a transitional period.

### Subsequent events

In March 2016, the Bank parent company entered into a share transfer agreement with the J. Safra Sarasin Group with respect to the sale and transfer of all shares of Credit Suisse (Monaco) SAM by the Bank parent company to the J. Safra Sarasin Group (entity sale). The transaction closed on January 13, 2017. The Group will continue providing certain services to Credit Suisse (Monaco) SAM for a transitional period.

In February 2017, CS Schweiz and Credit Suisse Asset Management International Holding Ltd (CSAM IHAG), with a participating interest of 49% and 51%, respectively, incorporated Credit Suisse Asset Management & Investor Services (Schweiz) Holding AG (CSAM Holding), a holding company domiciled in Switzerland. The Bank parent company transferred participating interests of 49% in four fund management companies and in Credit Suisse Asset Management (Schweiz) AG (CSAM Schweiz) to CS Schweiz by way of an a-fonds-perdu contribution (i.e., without consideration). Subsequently, CS Schweiz contributed these participating interests to CSAM Holding. The remaining 51% in these five entities were contributed to CSAM Holding through CSAM IHAG. CSAM Schweiz was incorporated in February 2017 and received the Swiss-related asset management business from the Bank parent company through a transfer of assets in accordance with the Swiss Merger Act. All transfers of participations were made at the participations' Swiss GAAP carrying value as recorded by the transferor.

In order to align the corporate structure of CS Schweiz with that of the Swiss Universal Bank division, the following equity stakes held by the Group parent company will be transferred to CS Schweiz: (i) 100% equity stake in Neue Aargauer Bank AG, (ii) 100% equity stake in BANK-now AG, and (iii) 50% equity stake in Swisscard AECS GmbH. The transfer of these equity stakes is currently expected to take place by way of an a-fonds-perdu contribution from the Group parent company to the Bank parent company and immediately thereafter via a subsequent sale of these equity stakes from the Bank parent company to CS Schweiz. The a-fonds-perdu contribution and the subsequent sale are expected to take place at the respective equity stakes' aggregate Swiss GAAP carrying value as recorded by the Group parent company. The transfer is expected to be completed by March 31, 2017.

In March 2017, the Group increased its existing litigation provision for mortgage-related matters by CHF 300 million, resulting in an impairment on the Bank parent's participations of CHF 208 million.

## 2 Accounting and valuation principles

### Summary of significant accounting and valuation principles

#### Basis for accounting

The Bank parent company's 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 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*). Supplemental information on unsecured senior debt and structured notes as provided by Note 19 is not a required disclosure under these rules.

The Bank's consolidated financial statements are prepared in accordance with accounting principles generally accepted in the US (US GAAP), which differ in certain material respects from Swiss GAAP statutory.

▶ Refer to "Note 1 – Summary of significant accounting policies" in VII – Consolidated financial statements – Credit Suisse (Bank) for a detailed description of the Bank's accounting and valuation principles.

▶ Refer to "Note 40 – Significant valuation and income recognition differences between US GAAP and Swiss GAAP banking law (true and fair view)" in VII – Consolidated financial statements – Credit Suisse (Bank) for information on significant valuation and income recognition differences between US GAAP and Swiss GAAP banking law (true and fair view).

The financial year for the Bank parent company 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 shareholder's equity.

### Foreign exchange rates

	End of		Average in	
	2016	2015	2016	2015
1 USD / 1 CHF	1.02	0.99	0.99	0.96
1 EUR / 1 CHF	1.07	1.08	1.09	1.07
1 GBP / 1 CHF	1.26	1.47	1.34	1.47
100 JPY / 1 CHF	0.87	0.82	0.90	0.80

### 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.

### 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 Bank parent company's functional currency 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 statements 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.

Assets and liabilities of foreign branches are translated to Swiss francs using spot rates as of the balance sheet date. Income and expense items of foreign branches are translated at weighted-average exchange rates for the year. All foreign exchange translation effects are recognized in the statements of income in net income/(loss) from trading activities and fair value option.

The following table provides the foreign exchange rates applied for the preparation of the Bank parent company's stand-alone financial statements.

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). The Bank parent company 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 to realize gains from fluctuations in market prices which includes an ongoing willingness to increase, decrease, close or hedge risk positions. Trading positions also include positions held with the intention of generating gains from arbitrage. 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 statements 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 the Bank parent company'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 only 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 the Bank parent company during the remaining term of the contract.

Hedge accounting is determined, tested for effectiveness and disclosed in accordance with 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.

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 statements 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 statements 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 statements 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 the Bank parent company, 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 can be held by the Bank parent company in Switzerland and its foreign branches.

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. For the purpose of impairment testing, the portfolio valuation method is applied. Impairment is assessed 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. The amount of impairment, if any, is assessed on the level of the entire portfolio of participations and not individually for each participation. An impairment is recorded if the carrying value exceeds the fair value of the participation portfolio. If the fair value of participations recovers significantly and is considered sustainable, a prior period impairment can be reversed up to the historical cost value of the participations.

#### 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 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.

Changes in the book values of assets and liabilities that are not recognized in the statements of income of a reporting period are recorded in the compensation account as assets or liabilities. 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 statements 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 statements 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 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 regard 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 the Bank parent company are presented in the publications "Pillar 3 and regulatory disclosures – Credit Suisse Group AG" and "Regulatory disclosures – Subsidiaries", respectively, which will be available on the Group's website [www.credit-suisse.com/regulatorydisclosures](http://www.credit-suisse.com/regulatorydisclosures).

#### New accounting policies to be adopted in future periods

##### Individual valuation of participations

Under the revised Banking Ordinance of April 30, 2014, which entered into force on January 1, 2015, certain regulations, such as the individual valuation of participations, tangible fixed assets and intangible assets are subject to transitional provisions until the full implementation of the regulation effective January 1, 2020. The requirements regarding individual valuation of tangible fixed assets and intangible assets are met by the Bank parent company's



current accounting policies. For participations, the Bank parent company is currently assessing the impact of a change in valuation principle from the portfolio valuation method to the individual valuation method. It has not yet elected the adoption date for this new valuation principle.

As of December 31, 2016, the carrying value of participations included total unrealized losses on certain participations of CHF 8,538 million, which were netted with unrealized gains on other participations of the same amount in accordance with the portfolio method applied under the current accounting policy.

### 3 Risk management, use of derivative financial instruments and hedge accounting

#### Risk management

Fundamental to the Bank parent company and its subsidiaries' (Bank) business is the prudent taking of risk in line with its strategic priorities. The primary objectives of risk management are to protect the Bank's financial strength and reputation, while ensuring that capital is well deployed to support business activities and grow shareholder value. The Bank's risk management framework is based on transparency, management accountability and independent oversight. Risk management is an integral part of the Bank's business planning process with strong involvement of senior management and the Board of Directors (Board).

#### Risk governance

The Bank's risk governance framework is based on a "three lines of defense" governance model, where each line has a specific role and 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 the Bank, and has primary responsibility for ensuring compliance with relevant legal and regulatory requirements and internal controls.

The second line of defense is separate from the front office and acts as an independent control function, responsible for reviewing and challenging front office activities and producing independent management information and risk management reporting for senior management and regulatory authorities. The second line of defense includes functions such as risk management, legal, compliance 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 as well as preparing and issuing related policies, and monitors compliance with these policies.

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.

Risk management of the Bank is aligned to the overall risk management governance of the Group. All members of the Board and the Executive Board of the Bank are also members of the Board and the Executive Board of the Group. The Bank's 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 and the Group Chief Risk Officer (CRO), in accordance with their respective responsibilities and levels of authority.

#### Board of Directors

The Board is responsible for the Bank's strategic direction, supervision and control, and for defining the Bank's overall tolerance for risk in the form of a risk appetite statement and overall risk limits. Overall risk limits are set by the Board in consultation with its Risk Committee.

The Risk Committee is responsible for assisting the Board in fulfilling its oversight responsibilities by providing guidance regarding risk governance and the development of the Bank's risk profile and capital adequacy, including the regular review of major risk exposures and overall risk limits.

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 the Bank's strategic business plans, subject to approval by the Board. It further reviews and coordinates significant initiatives for the risk management function and establishes Bank-wide risk policies. The Group CRO is a member of the Executive Board and represents the risk management function.

#### Executive Board committees

The Capital Allocation & Risk Management Committee (CARMC) is responsible for supervising and directing the Bank's risk profile, recommending risk limits at the Bank level to the Risk Committee and the Board, establishing and allocating risk limits among the various businesses, and for developing measures, methodologies and tools to monitor and manage the risk portfolio. CARMC meets monthly and conducts reviews according to the following three rotating cycles. The asset & liability management cycle reviews the funding and balance sheet trends and activities, plans and monitors regulatory and business liquidity requirements and internal and regulatory capital adequacy. The market & credit risks cycle reviews risk exposures and concentrations, defines and implements risk management strategies for the Bank businesses and sets and approves risk limits within approved Board limits and other appropriate measures to monitor and manage the risk portfolio within the various Bank businesses. In the market & credit risk cycle, the credit portfolio & provisions review committee, a sub-committee of CARMC, reviews the quality of the credit portfolio with a focus on

the development of impaired assets and the assessment of related provisions and valuation allowances. The internal control systems cycle monitors and analyzes significant legal and compliance risks, reviews and approves the business continuity program's alignment with the corporate strategy on an annual basis, sets limits, caps and triggers on specific businesses to control significant operational risk exposure, and reviews and assesses the appropriateness and efficiency of the internal control systems, particularly with regards to valuation risks and the new business approval process.

The Valuation Risk Management Committee (VARMC) is responsible for establishing policies regarding the valuation of certain material assets and the policies and calculation methodologies applied in the valuation process.

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 the Bank's internal models used for calculating regulatory capital requirements.

The Reputational Risk & Sustainability Committee (RRSC) sets policies and reviews processes and significant cases relating to reputational risks and sustainability issues. It also ensures compliance with the Bank's reputational and sustainability policies and oversees their implementation.

### Risk appetite framework

The Bank maintains a comprehensive Bank-wide risk appetite framework, which is governed by a global policy and provides a robust foundation for risk appetite setting and management across the Bank. A key element of the framework is a detailed statement of the Board-approved risk appetite which is aligned to the Bank's financial and capital plans. The framework also encompasses the processes and systems for assessing the appropriate level of risk appetite required to constrain the Bank's overall risk profile.

The Bank risk appetite framework is governed by an overarching global policy that encompasses the suite of specific policies, processes and systems with which the risk controls are calibrated and the risk profile is managed. The framework is guided by the following strategic risk objectives:

- maintaining Bank-wide 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;
- managing operational risk to ensure sustainable performance;
- minimizing reputational risk; and
- managing and controlling business conduct risk.

Bank-wide risk appetite 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 the Bank's strategic risk objectives, financial resources and business plans are aligned. The capital plans are also analyzed using the Bank's 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 Group CRO and the Chief Financial Officer (CFO), the Risk Appetite Review Committee (a sub-committee of CARMC), CARMC, the Risk Committee and, subsequently, by the Board.

The risk appetite statement is the formal plan, approved by the Board, for Bank-wide risk appetite. Key divisional allocations are cascaded from the Bank and approved in divisional risk management committees. Legal entity risk appetites are allocated from the Bank and are approved by the local legal entity board of directors.

A core aspect of the Bank's risk appetite framework is a sound system of integrated risk controls to maintain the Bank's risk profile within their overall risk appetites. Controls are classified according to type and authority, with the principal control types comprising limits, guidelines and tolerances. The risk controls restrict the Bank's maximum balance sheet and off-balance sheet exposure given the market environment, business strategy and financial resources available to absorb losses.

### Risk coverage and management

The Bank uses a wide range of risk management practices to address the variety of risks that arise from its business activities. Policies, limits, guidelines, processes, standards, risk assessment and measurement methodologies, and risk monitoring and reporting are key components of its risk management practices. The Bank's risk management practices complement each other in the Bank's analysis of potential loss, support the identification of interdependencies and interactions of risks across the organization and provide a comprehensive view of its exposures. The Bank 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, their definitions and key risk evaluation methods are summarized in the table "Key risk types overview".

It is important both to evaluate each risk type separately and assess the risk types' combined impact on the Bank, which helps ensure that the Bank's overall risk profile remains within the Bank-wide risk appetite.

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, limit monitoring and performance management. Economic risk capital is the core Bank-wide risk management tool for measuring and reporting the combined

impact from quantifiable risks such as market, credit, operational, pension, expense and model risks, each of which has an impact on the Bank's capital position.

Under the Basel framework, the Bank 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. The Bank's economic risk capital model

represents its internal view of the amount of capital required to support its business activities.

During 2016, as part of our economic risk capital strategic development program to further embed economic risk capital into our risk appetite framework, we continued to develop a suite of metrics and models that better assess, monitor and manage capital adequacy and solvency risk in severe stress events such as business recovery or resolution.

## Key risk types overview

Key risk types and definition	Key risk evaluation methods
<b>Liquidity and funding risks:</b> The risk that the Bank does not have the appropriate amount of funding and liquidity to meet its obligations.	Liquidity coverage ratio, net stable funding ratio, liquidity barometer, stress testing
<b>Market risk:</b> The risk of financial loss from adverse changes in market prices, including interest rates, credit spreads, foreign exchange, equity and commodity prices, and other factors such as market volatility and the correlation of market prices across asset classes.	Value-at-risk, sensitivities, economic risk capital, stress testing
<b>Credit risk:</b> 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.	Gross and net loan exposures, commitments, probability of default, loss given default, exposure at default, potential future exposure, country exposures, economic risk capital, stress testing
<b>Operational risk:</b> The risk of financial loss arising from inadequate or failed internal processes, people or systems, or from external events.	Risk and control self-assessments, risk and control indicators, internal and external incident data, economic risk capital, stress testing
<b>Technology risk:</b> The risk that technology-related failures, such as services outages or information security incidents, may disrupt business.	
<b>Legal, compliance, regulatory and conduct risks:</b> Legal risk is the risk of loss or any other material adverse impact arising from circumstances including the failure to comply with legal obligations, the making of legal challenge or claim against the Bank and the Bank's inability to enforce legal rights. Compliance and regulatory risk is the risk from the failure to comply with laws, regulations, rules or market standards, and also includes the risk of negative effects on activities and strategic initiatives of the Bank. Conduct risk is the risk that improper behavior or judgment results in negative financial, non-financial and/or reputational harm to clients, employees or the Bank, or damage to the integrity of the financial markets.	
<b>Reputational risk:</b> The risk that negative perception by stakeholders of the Bank may adversely impact client acquisition and damage its business relationships with clients and counterparties, affecting staff morale and reducing access to funding sources.	<ul style="list-style-type: none"> <li>A comprehensive assessment for these risk types is performed both periodically and event-driven.</li> <li>The results of the analysis impact management actions such as strategy adjustments, tactical measures, policy adjustments, event-driven crisis guidelines, staff training and individual performance measurement.</li> <li>The risk management actions include both precautionary activities to manage risk and issue resolution activities to recover from adverse developments.</li> </ul>
<b>Fiduciary risk:</b> The risk of financial loss arising when the Bank 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 and operational risk perspective.	
<b>Strategic risk:</b> 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.	

### Stress testing

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

Stress testing is a fundamental element of the Bank-wide risk appetite framework included in overall risk management to ensure that the Bank'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 the Bank's internal capital adequacy assessment. Within the risk appetite framework, CARMC sets Bank-wide stressed position loss limits to correspond to minimum post-stress capital ratios.

### Liquidity and funding risks

The Bank's liquidity and funding profile 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 CARMC and overseen by the Board. The implementation and execution of the funding and liquidity strategy is managed by the treasury function. The treasury function ensures adherence to the funding policy and the efficient coordination of the secured funding desks. This approach enhances the Bank's ability to manage potential liquidity and funding risks and to promptly adjust its liquidity and funding levels to meet stress situations. The Bank's liquidity and funding profile is regularly reported to CARMC and the Board, who define the Bank's risk tolerance, including liquidity risk, and set parameters for the balance sheet and funding usage of its businesses.

### Market risk

A typical transaction or position in financial instruments may be exposed to a number of different market risks. The Bank's trading (trading book) and non-trading (banking book) business activities have different sources of market risk. The classification of assets into trading book and banking book portfolios determines the approach for analyzing the Bank's market risk exposure. This classification reflects the business and risk management perspective and may be different from the classification of these assets for financial reporting purposes.

Market risks from the trading book primarily relate to the trading activities in the Bank's investment banking businesses.

Market risks from the banking book primarily relate to asset and liability mismatch exposures, equity participations and investments in bonds and money market instruments. The Bank's businesses 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, equity prices and, to a lesser extent, commodity prices.

The Bank uses market risk measurement and management methods capable of calculating comparable exposures across its many activities and 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 Bank's principal market risk measurement is ◊ value-at-risk (VaR). In addition, the Bank's market risk exposures are reflected in 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 the Bank can incur due to an adverse market movement over a defined holding period with a specified confidence level. VaR, scenario analysis, position risk and sensitivity analysis complement each other in the Bank's market risk assessment and are used to measure market risk at the level of the Bank. For example, interest rate risk for banking book positions is measured by estimating the impact resulting from a one basis point parallel increase in yield curves on the ◊ fair 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. This particular source of market risk is monitored on a daily basis. The treasury function is responsible for the modeling and monitoring of the replication portfolios.

### Credit risk

The majority of the Bank's credit risk is concentrated in the private banking, corporate and institutional as well as investment banking 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 Bank's credit risk management framework covers virtually all of the Bank's credit exposure and includes the following core components:

- individual counterparty rating systems;
- transaction rating systems;
- a counterparty credit limit system;
- country concentration limits;
- industry concentration limits;
- product limits;
- risk-based pricing methodologies;
- active credit portfolio management; and
- a credit risk provisioning methodology.

The Bank 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 with respect to 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 Bank's internal ratings may differ from a counterparty's external ratings, if one is available. Internal ratings for consumer loans and for corporates managed on the Swiss platform are regularly reviewed depending on loan type, client segment, collateral or event-driven developments. 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 ◊ risk-weighted assets, a ◊ probability of default (PD), ◊ loss given default (LGD) and ◊ exposure at default (EAD) is 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 the Bank's main regulators 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 and limits for certain products and industries. 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*

The Bank's regular review of the credit quality of clients and counterparties does not depend on the accounting treatment of the asset or commitment. 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. At the level of the Bank, the credit portfolio & provisions review committee regularly determines the adequacy of allowances.

The Bank 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 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 Bank's lending portfolios related to the private banking and wealth management 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 Bank's investment banking businesses, 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*

The Bank 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 Bank's counterparties and an internally independent collateral management function.

For credit 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 Bank-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 the Bank's internal policies and controls, depending on the type of loan (e.g., residential or commercial loan), characteristics of the borrower, 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 foreign exchange transactions and OTC trading activities primarily includes cash and US treasury instruments, G10 government securities and corporate bonds. 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 multi-family buildings, offices and commercial properties, and other types of lending collateral such as accounts receivable, inventory, plant and equipment.

#### *Operational risk*

Operational risk is inherent in most aspects of the Bank'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. Particularly relevant examples of operational risk include the risk of fraudulent transactions, trade processing errors, business disruptions, failures in regulatory compliance, defective transactions, and unauthorized trading events. Operational risk can arise from human error, inappropriate conduct, failures in systems, processes and controls, or natural and man-made disasters.

The diverse nature and wide extent of operational risk makes it inherently difficult to measure. The Bank believes that effective management of operational risk requires a common Bank-wide operational risk framework that focuses on the early identification, recording, assessment, monitoring, prevention and mitigation of operational risks, as well as timely and meaningful management reporting. The Bank started to introduce its current operational risk framework in 2013, which improved the integration of previously separate operational risk processes, providing a more coherent approach to managing all aspects of the operational risk landscape. Over the past four years, the Bank has redesigned the framework, introducing new components and upgrading existing components with a particular focus on ensuring that the components work well together. The operational risk framework provides a structured approach to managing operational risk. It seeks to apply consistent standards and techniques for evaluating risks across the Bank while providing individual businesses with sufficient flexibility to tailor specific components to their own needs, as long as they meet Bank-wide minimum standards.

In addition to managing and mitigating operational risks under the operational risk framework through business- and risk-related processes and organization, the Bank also transfers the risk of potential loss from certain operational risks to third-party insurance companies in certain instances.

The Bank has used an internal model to calculate the regulatory capital requirement for operational risk under the advanced measurement approach since 2008. In 2014, it introduced an enhanced internal model that incorporated developments regarding operational risk measurement methodology and associated regulatory guidance. The revised model for calculating the regulatory capital requirement for operational risk was approved by FINMA with effect from January 1, 2014. In 2016, the Bank continued the maintenance of its model methodology in order to ensure that it remains appropriate to capture the Bank's operational risk profile. The Bank also continued the process of aligning the output of the operational risk model with other key components of the operational risk framework as well as ensuring consistency with the stress scenario framework developed for enterprise-wide risk management purposes.

Each individual business area takes responsibility for its operational risks and the provision of adequate resources and procedures for the management of those risks. Businesses are supported by designated operational risk teams who are responsible for the implementation of the operational risk management framework, methodologies, tools and reporting within their areas as well as working with management on any operational risk issues that arise. The operational risk management function is responsible for the overall design of the operational risk management framework, for operational risk capital modeling and for providing assistance and challenge to business line operational risk teams. Operational risk exposures, metrics, issues and remediation efforts are discussed at the quarterly CARMC meetings covering operational risk and at divisional risk management committees, which have senior staff representatives from all the relevant functions.

#### Technology risk

As a component of operational risk, technology risk is inherent not only in the Bank's information technology assets, but also in the people and processes that interact with them. Cyber risk, which is part of technology risk, is the risk that the Bank's systems will not operate properly or will be compromised as a result of cyberattacks, security breaches, unauthorized access, loss or destruction of data, unavailability of service, computer viruses or other events that could have an adverse security impact.

Technology risks are managed through the Bank's technology risk management program, business continuity management plan and business contingency and resiliency plans. Although the Bank has these plans in place, its businesses face a wide variety of technology risks, including those arising from cyberattacks as well as dependencies on third-party suppliers and the worldwide telecommunications infrastructure. The Bank operates in a complex technological landscape covering its diverse business model. Ensuring that the confidentiality, integrity and availability of information assets are protected is critical to its operations.

#### Legal, compliance, regulatory and conduct risks

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 the Bank, its inability to enforce legal rights or the failure to take measures to protect its rights.

Compliance and regulatory risk is the risk that results from the failure to comply with laws, regulations, rules or market standards that may have a negative effect on the Bank's franchise and clients it serves. It includes the risk that changes in laws, regulations, rules or market standards may limit the Bank's activities and have a negative effect on its 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.

Conduct risk is the risk that improper behavior or judgment by the Bank's employees or representatives results in negative financial, non-financial, and/or reputational harm to its clients, its employees or the Bank, or damage to the integrity of the financial markets. Conduct risk may arise from a wide variety of activities and types of behaviors of a business and personal nature. A firm-wide definition of expectations relating to the conduct of the Bank's employees and representatives helps to ensure that the Bank has a common understanding of and is consistently managing, minimizing, and mitigating its conduct risk and further 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 the Bank and at other firms in the financial services sector. Furthermore, the Group's Code of Conduct provides a clear statement of the ethical values and

professional standards expected of employees and representatives across the Bank as a basis for maintaining and strengthening the Group's reputation for integrity, fair dealing and measured risk-taking.

As part of the Bank's risk framework, legal, compliance, regulatory and conduct risks fall within the definition of operational risk. Management of these risks is the responsibility of all its employees.

#### Reputational risk

Reputational risk may arise from a variety of sources, including the nature or purpose of a proposed transaction or service, the identity or activity of a controversial 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.

The Bank's policy is to avoid any action, transaction or client relationship that involves the risk of an unacceptable level of damage to its reputation. The Bank has a number of measures to mitigate potential reputational risk.

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 RRSC, on a global level, and the reputational risk committees, 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 the Bank's risk appetite framework as well as assessing the adequacy of the management of reputational risks.

#### Fiduciary risk

Monitoring investment performance and measuring risks across discretionary client portfolios is central to the Bank'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

A wide variety of financial, risk, client and market analyses are used by the Bank 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 by each division annually and aggregated into a Bank plan, which is reviewed by the CRO, CFO and Chief Executive Officer (CEO) before presentation to the Executive Board. Following approval by the Executive Board, the Bank plan is submitted for review and approval to the Board. In addition, there is an annual strategic review at which the Board evaluates the Bank's performance against strategic objectives and sets the overall strategic direction for the Bank. From time to time, the Board and the Executive Board conduct more fundamental in-depth reviews of the Bank's strategy.

► Refer to "Strategy" in I – Information on the company for further information.

### 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. The Bank parent company'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, the Bank parent company 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 the Bank parent company 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, core banking business assets and liabilities; as well as selected foreign participations 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.

**Hedge accounting**

Hedge accounting for the Bank parent company is determined, recorded and disclosed in accordance with US GAAP as allowed under Swiss GAAP statutory accounting rules.

► Refer to “Note 13 – Derivative financial instruments” for further information on hedge accounting.

**Fair value hedges**

The Bank parent company 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. In addition to hedging changes in fair value due to interest rate risk associated with fixed rate loans, ◀ repurchase agreements and long-term debt instruments, the Bank parent company uses:

- cross-currency swaps to convert foreign-currency-denominated fixed rate assets or liabilities to floating rate functional currency assets or liabilities; and
- foreign exchange forward contracts to hedge the foreign exchange risk associated with available-for-sale securities.

**Cash flow hedges**

The Bank parent company 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. The Bank parent company 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 the Bank parent company elects to be exposed. Further, the Bank parent company uses derivatives to hedge its cash flows associated with forecasted transactions.

**Hedge effectiveness assessment**

The Bank parent company assesses the effectiveness of hedging relationships both prospectively and retrospectively. The prospective assessment is made both at the inception of a hedging relationship and on an ongoing basis, and requires the Bank parent company to justify its expectation that the relationship will be highly effective over future periods. The retrospective assessment is also performed on an ongoing basis and requires the Bank parent company to determine whether or not the hedging relationship has actually been effective. If the Bank parent company concludes, through a retrospective evaluation, that hedge accounting is appropriate for the current period, then it measures the amount of hedge ineffectiveness to be recognized in earnings.

**4 Net income from interest activities****Negative interest**

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

**Negative interest income and expense**

in	2016	2015
<b>Negative interest income and expense (CHF million)</b>		
Negative interest income debited to interest income	(173)	(93)
Negative interest expenses credited to interest expense	137	119



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

in	2016	2015
<b>Net income/(loss) from trading activities and fair value option by risk of underlying instruments (CHF million)</b>		
Interest rate instruments <sup>1</sup>	640	286
Equity instruments <sup>1</sup>	(1,074)	(303)
Foreign exchange	(662)	706
Precious metals	129	42
Commodities <sup>2</sup>	(7)	(84)
Credit instruments	(1,405)	(244)
Other instruments	(29)	(57)
<b>Net income/(loss) from trading activities and fair value option</b>	<b>(2,408)</b>	<b>346</b>
of which net income/(loss) from fair value option	(174)	4,820
of which net income/(loss) from fair value option on liabilities	(174)	4,820

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

<sup>2</sup> Includes energy products.

Trading activities at the Bank parent company level are only monitored and managed for entity-specific capital adequacy purposes and are not measured along divisional or individual business lines.

The trading activities of the divisions or individual businesses are only monitored and managed at the Group level based on US GAAP metrics.

## 6 Personnel expenses

in	2016	2015
<b>Personnel expenses (CHF million)</b>		
Salaries	2,849	3,429
of which variable compensation expenses	446	526
Social benefit expenses	598	630
of which pension and other post-retirement expenses	387	396
Other personnel expenses	129	140
<b>Personnel expenses</b>	<b>3,576</b>	<b>4,199</b>

## 7 General and administrative expenses

in	2016	2015
<b>General and administrative expenses (CHF million)</b>		
Occupancy expenses	288	365
Information and communication technology expenses	220	219
Furniture and equipment	40	40
Fees to external audit companies	30	29
of which fees for financial and regulatory audits <sup>1</sup>	29	27
of which fees for other services	1	2
Other operating expenses	2,528	2,445
<b>General and administrative expenses</b>	<b>3,106</b>	<b>3,098</b>

<sup>1</sup> Represents total fees for financial statement, regulatory and related audit services paid by legal entity Credit Suisse AG to external audit companies.

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

### Increase/(release) of provisions and other valuation adjustments, and losses

in	2016	2015
<b>Increase/(release) of provisions and other valuation adjustments, and losses (CHF million)</b>		
Increase/(release) of provisions	77 <sup>1</sup>	447 <sup>2</sup>
Other losses	9	14
<b>Increase/(release) of provisions and other valuation adjustments, and losses</b>	<b>86</b>	<b>461</b>

<sup>1</sup> Primarily related to increases in off-balance sheet provisions and litigation provisions.

<sup>2</sup> Primarily related to increases in litigation provisions.

### Extraordinary income and expenses

in	2016	2015
<b>Extraordinary income (CHF million)</b>		
Gains realized from the disposal of participations	39 <sup>1</sup>	84 <sup>2</sup>
Gains realized from the disposal of tangible fixed assets <sup>3</sup>	484	108
Other extraordinary income	0	251 <sup>4</sup>
<b>Extraordinary income</b>	<b>523</b>	<b>443</b>
<b>Extraordinary expenses (CHF million)</b>		
Losses realized from the disposal of participations	0	(24) <sup>5</sup>
<b>Extraordinary expenses</b>	<b>0</b>	<b>(24)</b>

<sup>1</sup> Primarily related to the sale and liquidation of two subsidiaries.

<sup>2</sup> Primarily related to the share buyback of Euroclear and the liquidation of a subsidiary and an investment fund.

<sup>3</sup> Includes realized gains from the sale of real estate (bank premises).

<sup>4</sup> Reflects the impact from the recognition of intangible assets previously not recorded that have been sold subsequently.

<sup>5</sup> Primarily related to the liquidation of two participations.

## 9 Taxes

in	2016	2015
<b>Taxes (CHF million)</b>		
<b>Income tax (expense)/benefit</b>	<b>(300)</b>	<b>(441)</b>
of which current income tax (expense)/benefit	(300)	(240)
of which deferred income tax (expense)/benefit <sup>1</sup>	–	(201)
<b>Non-income-based taxes (expense)/benefit<sup>2</sup></b>	<b>(104)</b>	<b>(156)</b>
<b>Taxes</b>	<b>(404)</b>	<b>(597)</b>

<sup>1</sup> With the adoption of the new accounting guidance for Swiss banks the Bank parent company has changed its tax accounting policy and no longer recognizes deferred tax assets and deferred tax liabilities on temporary differences. All remaining balances of deferred tax assets and deferred tax liabilities as of January 1, 2015 have been released.

<sup>2</sup> Includes capital taxes and other non-income based taxes such as UK bank levy expenses.

For the financial year ended December 31, 2016, the average tax rate, defined as income tax expense divided by the sum of profit before income tax, was (12)%, compared to (18)% in 2015. Income tax expense for the financial year ended December 31, 2016 reflected a benefit of CHF 167 million from the utilization of

tax losses carried forward. For 2015, a benefit of CHF 14 million from the utilization of tax losses carried forward was reflected in the income tax expense. The calculation is based on statutory tax rates applied to the taxable profit against which tax loss carry forwards were utilized.

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

end of	2016	2015
<b>On-balance sheet (CHF million)</b>		
Carrying value of receivables from cash collateral paid for securities borrowed and reverse repurchase agreements – gross	40,800	26,660
Impact from master netting agreements	(17)	(2,488)
<b>Carrying value of receivables from cash collateral paid for securities borrowed and reverse repurchase agreements – net</b>	<b>40,783</b>	<b>24,172</b>
Carrying value of liabilities from cash collateral received for securities lent and repurchase agreements – gross	21,726	13,727
Impact from master netting agreements	(17)	(2,488)
<b>Carrying value of liabilities from cash collateral received for securities lent and repurchase agreements – net</b>	<b>21,709</b>	<b>11,239</b>
<b>Off-balance sheet (CHF million)</b>		
Carrying value of securities transferred under securities lending and borrowing and repurchase agreements	1,862	5,177
of which transfers with the right to resell or repledge	700	4,961
Fair value of securities received under securities lending and borrowing and reverse repurchase agreements with the right to resell or repledge	97,482	54,302
of which repledged	68,268	27,844
of which resold	517	3,398

## 11 Collateral and impaired loans

### Collateralization of loans

end of	Secured <sup>1</sup>			Unsecured	Total
	Mortgages	Other collateral	Total		
<b>2016 (CHF million)</b>					
Due from customers	110	86,613	86,723	95,030	181,753
Residential property	3,766	0	3,766	0	3,766
Offices and commercial property	844	0	844	0	844
Manufacturing and industrial property	306	0	306	0	306
Other	49	0	49	0	49
Mortgage loans	4,965	0	4,965	0	4,965
<b>Gross loans</b>	<b>5,075</b>	<b>86,613</b>	<b>91,688</b>	<b>95,030</b>	<b>186,718</b>
Allowance for loan losses	(13)	(580)	(593)	(747)	(1,340)
<b>Net loans</b>	<b>5,062</b>	<b>86,033</b>	<b>91,095</b>	<b>94,283</b>	<b>185,378</b>
of which due from customers	110	86,033	86,143	94,283	180,426
of which mortgage loans	4,952	0	4,952	0	4,952
<b>2015 (CHF million)</b>					
Due from customers	690	106,713	107,403	135,013	242,416
Residential property	92,895	0	92,895	0	92,895
Offices and commercial property	13,280	0	13,280	0	13,280
Manufacturing and industrial property	8,535	0	8,535	0	8,535
Other	1,148	0	1,148	0	1,148
Mortgage loans	115,858	0	115,858	0	115,858
<b>Gross loans</b>	<b>116,548</b>	<b>106,713</b>	<b>223,261</b>	<b>135,013</b>	<b>358,274</b>
Allowance for loan losses	(81)	(866)	(947)	(358)	(1,305)
<b>Net loans</b>	<b>116,467</b>	<b>105,847</b>	<b>222,314</b>	<b>134,655</b>	<b>356,969</b>
of which due from customers	688	105,847	106,535	134,655	241,190
of which mortgage loans	115,779	0	115,779	0	115,779

<sup>1</sup> 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 Bank parent company's risk management policies and directives, 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 <sup>1</sup>			Unsecured	Total
	Mortgages	Other collateral	Total		
<b>2016 (CHF million)</b>					
Contingent liabilities	51	10,450	10,501	160,408 <sup>2</sup>	170,909
Irrevocable commitments	747	37,999	38,746	56,467	95,213
Obligations for calls on shares and additional payments	0	0	0	155	155
<b>Off-balance sheet transactions</b>	<b>798</b>	<b>48,449</b>	<b>49,247</b>	<b>217,030</b>	<b>266,277</b>
<b>2015 (CHF million)</b>					
Contingent liabilities	177	18,332	18,509	163,541 <sup>2</sup>	182,050
Irrevocable commitments	716	55,745	56,461	64,193	120,654
Obligations for calls on shares and additional payments	0	0	0	61	61
<b>Off-balance sheet transactions</b>	<b>893</b>	<b>74,077</b>	<b>74,970</b>	<b>227,795</b>	<b>302,765</b>

<sup>1</sup> 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 Bank parent company's risk management policies and directives, 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.

<sup>2</sup> A majority of contingent liabilities are related to guarantees issued in favor of Group companies.

## Impaired loans

end of	Gross amount outstanding	Estimated realizable collateral value <sup>1</sup>	Net amount outstanding	Specific allowance
<b>2016 (CHF million)</b>				
Impaired loans	2,897	1,425	1,472	973
<b>2015 (CHF million)</b>				
Impaired loans	2,565	1,126	1,439	922

<sup>1</sup> Represents the estimated realizable collateral value up to the related gross amount outstanding.

## Changes in impaired loans

	2016			2015		
	Due from customers	Mortgage loans	Total	Due from customers	Mortgage loans	Total
<b>Impaired loans (CHF million)</b>						
<b>Balance at beginning of period</b>	<b>2,322</b>	<b>243</b>	<b>2,565</b>	<b>1,312</b>	<b>244</b>	<b>1,556</b>
Change in organization	(198) <sup>1</sup>	(189) <sup>1</sup>	(387) <sup>1</sup>	(6)	0	(6)
New impaired loan balances	3,749	119	3,868	1,769	191	1,960
Increase of existing impaired loan balances	93	10	103	57	7	64
Reclassifications to performing loans	(1,795)	(43)	(1,838)	(90)	(74)	(164)
Repayments	(741)	(20)	(761)	(500)	(41)	(541)
Liquidation of collateral, insurance and guarantee payments	(213)	(46)	(259)	(32)	(81)	(113)
Write-offs	(188)	(3)	(191)	(155)	(3)	(158)
Sales	(177)	0	(177)	(43)	0	(43)
Foreign exchange translation impact	(26)	0	(26)	10	0	10
<b>Balance at end of period</b>	<b>2,826</b>	<b>71</b>	<b>2,897</b>	<b>2,322</b>	<b>243</b>	<b>2,565</b>

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

<sup>1</sup> Reflects the transfer of assets to CS Schweiz on November 20, 2016, with retrospective effect as of August 1, 2016.

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

### Trading assets and other financial instruments held at fair value

end of	2016	2015
<b>Trading assets and other financial instruments held at fair value (CHF million)</b>		
Debt securities, money market instruments and money market transactions	13,264	23,155
of which exchange-traded	1,968	2,453
Equity securities	3,172	6,521
Precious metals and commodities	1,150	2,034
<b>Trading assets</b>	<b>17,586</b>	<b>31,710</b>
Debt securities	104	0
Other	210	0
<b>Other financial instruments held at fair value</b>	<b>314</b>	<b>0</b>
<b>Total trading assets and other financial instruments held at fair value</b>	<b>17,900</b>	<b>31,710</b>
of which carrying value determined based on a valuation model	8,445	12,060
of which securities eligible for repurchase transactions in accordance with liquidity regulations	3,118	1,654

### Trading liabilities and liabilities from other financial instruments held at fair value

end of	2016	2015
<b>Trading liabilities and liabilities from other financial instruments held at fair value (CHF million)</b>		
Debt securities, money market instruments and money market transactions	211	717
of which exchange-traded	16	504
Equity securities	1,302	556
<b>Trading liabilities</b>	<b>1,513</b>	<b>1,273</b>
Structured products	61,411	56,002
<b>Liabilities from other financial instruments held at fair value</b>	<b>61,411</b>	<b>56,002</b>
<b>Trading liabilities and liabilities from other financial instruments held at fair value</b>	<b>62,924</b>	<b>57,275</b>
of which carrying value determined based on a valuation model	61,575	56,770

## 13 Derivative financial instruments

	Trading			Hedging <sup>1</sup>		
	Notional amount	Positive replacement value (PRV)	Negative replacement value (NRV)	Notional amount	Positive replacement value (PRV)	Negative replacement value (NRV)
<b>end of 2016</b>						
<b>Derivative financial instruments (CHF million)</b>						
Forwards and forward rate agreements	92,989	32	26	0	0	0
Swaps	3,570,173	8,914	9,265	23,537	1,523	50
Options bought and sold (OTC)	101,210	592	797	0	0	0
Futures	28,120	0	0	0	0	0
Options bought and sold (exchange-traded)	186,052	1	1	0	0	0
<b>Options bought and sold (exchange-traded)</b>	<b>3,978,544</b>	<b>9,539</b>	<b>10,089</b>	<b>23,537</b>	<b>1,523</b>	<b>50</b>
Forwards and forward rate agreements	1,119,390	16,741	18,876	0	0	0
Swaps <sup>2</sup>	120,331	3,224	4,718	107	7	0
Options bought and sold (OTC)	354,654	5,490	5,554	0	0	0
Futures	184	0	0	0	0	0
<b>Foreign exchange products</b>	<b>1,594,559</b>	<b>25,455</b>	<b>29,148</b>	<b>107</b>	<b>7</b>	<b>0</b>
Forwards and forward rate agreements	7,373	106	90	0	0	0
Options bought and sold (OTC)	21,138	377	383	0	0	0
<b>Precious metal products</b>	<b>28,511</b>	<b>483</b>	<b>473</b>	<b>0</b>	<b>0</b>	<b>0</b>
Forwards and forward rate agreements	1	0	0	0	0	0
Swaps	39,114	1,475	1,392	0	0	0
Options bought and sold (OTC)	59,115	2,096	1,995	0	0	0
Futures	19	0	0	0	0	0
Options bought and sold (exchange-traded)	4,104	33	95	0	0	0
<b>Equity/index-related products</b>	<b>102,353</b>	<b>3,604</b>	<b>3,482</b>	<b>0</b>	<b>0</b>	<b>0</b>
Credit default swaps	23,730	856	863	0	0	0
Total return swaps	2,448	17	98	0	0	0
Other credit derivatives	20,839	130	136	0	0	0
<b>Credit derivatives</b>	<b>47,017</b>	<b>1,003</b>	<b>1,097</b>	<b>0</b>	<b>0</b>	<b>0</b>
Forwards and forward rate agreements	0	0	0	0	0	0
Swaps	9,918	1,429	519	0	0	0
Options bought and sold (OTC)	189	10	3	0	0	0
<b>Other derivative products<sup>3</sup></b>	<b>10,107</b>	<b>1,439</b>	<b>522</b>	<b>0</b>	<b>0</b>	<b>0</b>
<b>Derivative financial instruments<sup>4</sup></b>	<b>5,761,091</b>	<b>41,523</b>	<b>44,811</b>	<b>23,644</b>	<b>1,530</b>	<b>50</b>
of which replacement value determined based on a valuation model	–	41,384	44,664	–	1,530	50

<sup>1</sup> Relates to derivative financial instruments that qualify for hedge accounting.<sup>2</sup> Including combined interest rate and foreign exchange swaps.<sup>3</sup> Primarily commodity and energy products.<sup>4</sup> Before impact of master netting agreements.

## Derivative financial instruments (continued)

end of 2015	Trading			Hedging <sup>1</sup>		
	Notional amount	Positive replacement value (PRV)	Negative replacement value (NRV)	Notional amount	Positive replacement value (PRV)	Negative replacement value (NRV)
<b>Derivative financial instruments (CHF million)</b>						
Forwards and forward rate agreements	80,929	39	78	0	0	0
Swaps	2,155,859	19,090	19,661	49,175	2,224	763
Options bought and sold (OTC)	40,456	615	700	0	0	0
Futures	70,085	0	0	0	0	0
Options bought and sold (exchange-traded)	21	4	0	0	0	0
<b>Interest rate products</b>	<b>2,347,350</b>	<b>19,748</b>	<b>20,439</b>	<b>49,175</b>	<b>2,224</b>	<b>763</b>
Forwards and forward rate agreements	1,209,492	15,879	16,029	13	1	1
Swaps <sup>2</sup>	60,559	1,511	2,311	120	11	0
Options bought and sold (OTC)	446,340	10,223	9,596	0	0	0
Futures	214	0	0	0	0	0
<b>Foreign exchange products</b>	<b>1,716,605</b>	<b>27,613</b>	<b>27,936</b>	<b>133</b>	<b>12</b>	<b>1</b>
Forwards and forward rate agreements	5,344	76	75	0	0	0
Options bought and sold (OTC)	6,568	168	137	0	0	0
Futures	2	0	0	0	0	0
<b>Precious metal products</b>	<b>11,914</b>	<b>244</b>	<b>212</b>	<b>0</b>	<b>0</b>	<b>0</b>
Swaps	24,332	888	1,721	0	0	0
Options bought and sold (OTC)	72,555	3,372	3,233	0	0	0
Futures	3,830	0	0	0	0	0
Options bought and sold (exchange-traded)	38,872	856	1,537	0	0	0
<b>Equity/index-related products</b>	<b>139,589</b>	<b>5,116</b>	<b>6,491</b>	<b>0</b>	<b>0</b>	<b>0</b>
Credit default swaps	19,932	1,035	719	0	0	0
Total return swaps	296	7	8	0	0	0
Other credit derivatives	21,553	189	95	0	0	0
<b>Credit derivatives</b>	<b>41,781</b>	<b>1,231</b>	<b>822</b>	<b>0</b>	<b>0</b>	<b>0</b>
Forwards and forward rate agreements	1	0	0	0	0	0
Swaps	8,757	1,378	504	0	0	0
Options bought and sold (OTC)	2,111	131	44	0	0	0
Futures	70	0	0	0	0	0
Options bought and sold (exchange-traded)	207	59	70	0	0	0
<b>Other derivative products<sup>3</sup></b>	<b>11,146</b>	<b>1,568</b>	<b>618</b>	<b>0</b>	<b>0</b>	<b>0</b>
<b>Derivative financial instruments<sup>4</sup></b>	<b>4,268,385</b>	<b>55,520</b>	<b>56,518</b>	<b>49,308</b>	<b>2,236</b>	<b>764</b>
of which replacement value determined based on a valuation model	–	54,821	55,729	–	2,236	764

<sup>1</sup> Relates to derivative financial instruments that qualify for hedge accounting.

<sup>2</sup> Including combined interest rate and foreign exchange swaps.

<sup>3</sup> Primarily commodity, energy and emission products.

<sup>4</sup> Before impact of master netting agreements.

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

end of	2016	2015
<b>Positive and negative replacement values – before consideration of master netting agreements (CHF million)</b>		
Positive replacement values – trading and hedging	43,053	57,756
Negative replacement values – trading and hedging	44,861	57,282
<b>Positive and negative replacement values – after consideration of master netting agreements (CHF million)</b>		
Positive replacement values – trading and hedging <sup>1</sup>	8,098	13,934
Negative replacement values – trading and hedging <sup>1</sup>	8,055	13,271

<sup>1</sup> Netting includes counterparty exposure and cash collateral netting.

**Positive replacement values by counterparty type**

end of	2016	2015
<b>Positive replacement values by counterparty type (CHF million)</b>		
Central clearing counterparties	403	561
Banks and securities dealers	4,922	6,373
Other counterparties	2,773	7,000
<b>Positive replacement values</b>	<b>8,098</b>	<b>13,934</b>

**Fair value hedges**

in	2016	2015
<b>Gains/(losses) on derivative financial instruments recognized in income (CHF million)</b>		
Interest rate products	(492)	(94)
<b>Gains/(losses) on derivative financial instruments recognized in income</b>	<b>(492)</b>	<b>(94)</b>
<b>Gains/(losses) on hedged items recognized in income (CHF million)</b>		
Interest rate products	496	76
<b>Gains/(losses) on hedged items recognized in income</b>	<b>496</b>	<b>76</b>
<b>Details of fair value hedges (CHF million)</b>		
Net gains/(losses) on the ineffective portion	4	(18)

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

**Cash flow hedges**

in	2016	2015
<b>Deferred unrealized gains/(losses) on derivative financial instruments related to cash flow hedges (CHF million)<sup>1</sup></b>		
<b>Balance at beginning of period</b>	<b>15</b>	<b>31</b>
Interest rate products	32	21
Foreign exchange products	0	(2)
<b>Gains/(losses) on derivative financial instruments deferred during reporting period</b>	<b>32</b>	<b>19</b>
Interest rate products <sup>2</sup>	21	37
Foreign exchange products <sup>2</sup>	0	(2)
<b>Deferred gains/(losses) on derivative financial instruments reclassified into income</b>	<b>21</b>	<b>35</b>
Transfer of assets to Credit Suisse (Schweiz) AG effective August 1	(51)	–
<b>Balance at end of period</b>	<b>(25)</b>	<b>15</b>
<b>Details of cash flow hedges (CHF million)</b>		
Net gains/(losses) on the ineffective portion <sup>2</sup>	(1)	(12)

<sup>1</sup> Included in the compensation account within other assets or other liabilities.

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

As of December 31, 2016, 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 8 million.

As of December 31, 2016, the maximum length of time over which the Bank parent company 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 five years.

► Refer to “Use of derivative financial instruments and hedge accounting” in Note 3 – Risk management, use of derivative financial instruments and hedge accounting for further information.



## 14 Financial investments

end of	2016		2015	
	Carrying value	Fair value	Carrying value	Fair value
<b>Financial investments (CHF million)</b>				
Debt securities	6,267	6,274	2,661	2,668
of which held-to-maturity	3,428	3,435	124	131
of which available-for-sale	2,839	2,839	2,537	2,537
Equity securities	622	622	99	116
of which qualified participations <sup>1</sup>	455	456	60	65
Real estate <sup>2</sup>	36	36	41	41
Other <sup>3</sup>	31	31	34	36
<b>Financial investments</b>	<b>6,956</b>	<b>6,963</b>	<b>2,835</b>	<b>2,861</b>
of which securities eligible for repurchase transactions in accordance with liquidity regulations	0	–	0	–

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

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

<sup>3</sup> Includes other non-financial assets acquired from the lending business (repossessed assets) such as commodities, vehicles and other goods.

### Debt securities by counterparty rating

end of	2016	2015
<b>Debt securities by counterparty rating (CHF million)<sup>1</sup></b>		
A+ to A–	2,611	1,912
BBB+ to BBB–	0	76
BB+ to B–	128	314
No rating	3,528 <sup>2</sup>	359
<b>Debt securities</b>	<b>6,267</b>	<b>2,661</b>

<sup>1</sup> Ratings are based on external data from Standard & Poor's.

<sup>2</sup> Mainly related to funding in the form of bail-in capital provided to CS Schweiz.

## 15 Other assets and other liabilities

end of	2016	2015
<b>Other assets (CHF million)</b>		
Compensation account	181	1,051
Indirect taxes and duties	133	615
Other <sup>1</sup>	949	362
<b>Other assets</b>	<b>1,263</b>	<b>2,028</b>
<b>Other liabilities (CHF million)</b>		
Indirect taxes and duties	26	166
Other <sup>2</sup>	419	519
<b>Other liabilities</b>	<b>445</b>	<b>685</b>

<sup>1</sup> Includes receivables from settlement accounts, coupons, internal clearing accounts and other miscellaneous assets.

<sup>2</sup> Includes payables from settlement accounts, accounts payable for goods and services purchased, internal clearing accounts and other miscellaneous liabilities.

## 16 Assets pledged

end of	2016		2015	
	Carrying value	Actual liabilities	Carrying value	Actual liabilities
<b>Assets pledged (CHF million) <sup>1</sup></b>				
Due from customers	221	221	301	301
Mortgage loans	0	0	21,463	15,191
Trading assets	372	217	446	204
<b>Assets pledged</b>	<b>593</b>	<b>438</b>	<b>22,210</b>	<b>15,696</b>

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

## 17 Pension plans

Liabilities due to the Bank parent company's own pension plans as of December 31, 2016 and 2015 of CHF 0 million and CHF 1,580 million, respectively, are reflected in various liability accounts in the Bank parent company's balance sheet.

► Refer to "Note 30 – Pension and other post-retirement benefits" in VII – Consolidated financial statements – Credit Suisse (Bank) for further information.

### Swiss pension plan

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

### International pension plans

The Bank parent company's international employees are covered by mandatory and supplementary pension plans in various locations. These are defined benefit and defined contribution plans, which cover benefits such as disability, old age and death, termination and sickness.

## Employer contribution reserves

end of / in	Employer contribution reserves – notional		Amount subject to waiver		Employer contribution reserves – net <sup>1</sup>		Increase/(Release) of employer contribution reserves included in personnel expenses	
	2016	2015	2016	2015	2016	2015	2016	2015
<b>CHF million</b>								
Swiss pension plan	20	36	0	0	20	36	(2)	(14)
<b>Total</b>	<b>20</b>	<b>36</b>	<b>0</b>	<b>0</b>	<b>20</b>	<b>36</b>	<b>(2)</b>	<b>(14)</b>

<sup>1</sup> In line with Swiss GAAP statutory accounting guidance, contributions to the employer contribution reserves are not recorded in the Bank parent company's statutory balance sheet.

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

end of / in	Over/(Under)-funding		Economic benefit/(obligation) recorded by Bank parent company <sup>2</sup>			Pension contributions		Pension expenses included in personnel expenses	
	2016	2015	2016	2015	Change	2016	2015	2016	2015
<b>CHF million</b>									
Swiss pension plan – status overfunded	726 <sup>1</sup>	1,050 <sup>1</sup>	–	–	–	362	382	362 <sup>3</sup>	382 <sup>4</sup>
International pension plans – underfunded	(8)	(3)	(8)	(3)	(5)	0	1	4	1
International pension plans – without over-/underfunding	0	0	0	0	0	21	13	21	13
<b>Total</b>	<b>718</b>	<b>1,047</b>	<b>(8)</b>	<b>(3)</b>	<b>(5)</b>	<b>383</b>	<b>396</b>	<b>387</b>	<b>396</b>

<sup>1</sup> Represents the Bank parent company's share of 58.9% and 93.98% in the total over/(under)funding of the Swiss pension plan of CHF 1,233 million and CHF 1,117 million as of December 31, 2016 and 2015, respectively.

<sup>2</sup> In line with Swiss GAAP statutory accounting guidance, the Bank parent company's economic benefit from its share in the overfunding of the Swiss pension plan is not recorded in the Bank parent company's statutory balance sheet.

<sup>3</sup> Includes a release of employer contribution reserves of CHF 2 million.

<sup>4</sup> Includes a release of employer contribution reserves of CHF 14 million.

**18 Issued structured products**

end of	2016							2015
	Not bifurcated <sup>1</sup>	Bifurcated		Total	Not bifurcated <sup>1</sup>	Bifurcated		
	Liabilities from other financial instruments held at fair value <sup>2</sup>	Value of underlying instrument	Value of derivative <sup>1</sup>		Liabilities from other financial instruments held at fair value <sup>2</sup>	Value of underlying instrument	Value of derivative <sup>1</sup>	
<b>Carrying value of issued structured products by underlying risk of the embedded derivative (CHF million)</b>								
<b>Interest rates</b>								
Structured products with own debt	16,505	0	0	16,505	11,558	0	0	11,558
Structured products without own debt	736	0	0	736	447	0	0	447
<b>Equity</b>								
Structured products with own debt	36,331	0	0	36,331	36,347	102	0	36,449
<b>Foreign exchange</b>								
Structured products with own debt	420	0	0	420	404	0	0	404
Structured products without own debt	0	723	(4)	719	0	918	(4)	914
<b>Commodities / precious metals</b>								
Structured products with own debt	1,455	0	0	1,455	1,874	0	0	1,874
Structured products without own debt	0	83	(2)	81	0	133	(1)	132
<b>Credit</b>								
Structured products with own debt	5,793	0	0	5,793	4,699	0	0	4,699
<b>Other<sup>3</sup></b>								
Structured products with own debt	171	0	0	171	673	0	0	673
<b>Total</b>	<b>61,411</b>	<b>806</b>	<b>(6)</b>	<b>62,211</b>	<b>56,002</b>	<b>1,153</b>	<b>(5)</b>	<b>57,150</b>

<sup>1</sup> Carried at fair value.

<sup>2</sup> Reflects balance sheet classification.

<sup>3</sup> Includes structured products where the underlying risk relates to hedge funds or other products with multiple underlying risks.

## 19 Unsecured senior debt and structured notes

end of	2016						2015
	Original maturity up to 1 year	Original maturity greater than 1 year	Total	Original maturity up to 1 year	Original maturity greater than 1 year	Total	
<b>Unsecured senior debt (CHF million)</b>							
<b>Total unsecured senior debt</b> <sup>1,2</sup>	5,495	91,968 <sup>3</sup>	<b>97,463</b>	4,890	86,846 <sup>3</sup>	<b>91,736</b>	
of which recorded in medium-term notes			0			759	
of which recorded in bonds and mortgage-backed bonds			97,463			90,977	
<b>Unsecured structured notes (CHF million)</b>							
<b>Total unsecured structured notes</b>	2,452	58,223	<b>60,675</b>	2,184	53,474	<b>55,658</b>	
of which recorded in liabilities from other financial instruments held at fair value			60,675			55,555	
of which recorded in bonds and mortgage-backed bonds			0			103	

<sup>1</sup> Includes guaranteed debt.

<sup>2</sup> Excludes senior unsecured debt included in due to banks and customer deposits as well as certificates of deposits and bankers acceptances.

<sup>3</sup> Includes bail-in instruments of CHF 22,423 million and CHF 14,712 million as of December 31, 2016 and 2015, respectively, with Credit Suisse Group AG.

## 20 Provisions and valuation adjustments

2016	Balance at beginning of period	Change in organization <sup>1</sup>	Utilized for purpose	Reclassifications	Foreign exchange translation differences	Recoveries, interest past due	New charges to income statement	Releases to income statement	Balance at end of period
<b>Provisions (CHF million)</b>									
Provisions for pension benefit obligations	3	1	0	–	0	–	4	0	8 <sup>2</sup>
Provisions for off-balance sheet default risks	248	(20)	(80)	0	5	0	248	(195)	206 <sup>3,4</sup>
Provisions for other business risks	38	(22)	(1)	0	0	0	10	(8)	17 <sup>3</sup>
Restructuring provisions	23	(7)	(30)	0	0	0	60	(18)	28 <sup>5</sup>
Other provisions	484	(12)	(170)	0	2	0	57	(32)	329 <sup>6</sup>
<b>Provisions</b>	<b>796</b>	<b>(60)</b>	<b>(281)</b>	<b>0</b>	<b>7</b>	<b>0</b>	<b>379</b>	<b>(253)</b>	<b>588</b>
<b>Valuation adjustments for default and country risks (CHF million)<sup>7</sup></b>									
<b>Valuation adjustments for default and country risks</b>	<b>1,354</b>	<b>(292)</b>	<b>(270)</b>	<b>0</b>	<b>33</b>	<b>227</b>	<b>1,062</b>	<b>(772)</b>	<b>1,342</b>
of which valuation adjustments for default risks from impaired receivables	967	(182)	(267)	0	25	227	634	(430)	974
of which valuation adjustments for inherent risks	387	(110)	(3)	0	8	0	428	(342)	368

<sup>1</sup> Mainly reflects the transfer of assets to CS Schweiz on November 20, 2016, effective retrospectively as of August 1, 2016.

<sup>2</sup> Discounted at rates of between 1.20% and 7.00%.

<sup>3</sup> Provisions are not discounted due to their short-term nature.

<sup>4</sup> Provisions are mainly related to irrevocable loan commitments and guarantees.

<sup>5</sup> Partially discounted at rates of between 0.01% and 1.35%.

<sup>6</sup> Includes provisions in respect of litigation claims of CHF 257 million and CHF 416 million as of December 31, 2016 and 2015, respectively; partially discounted at rates between 2.90% and 16.50%.

<sup>7</sup> Changes in impaired loan classification during the year and related movements in valuation adjustments are reflected on a gross basis.

## 21 Composition of share capital, conversion and reserve capital

end of	2016		2015	
	Quantity	Total nominal value (CHF million)	Quantity	Total nominal value (CHF million)
<b>Share capital</b>				
Registered shares (at CHF 1 par value per share)	4,399,680,200	4,400 <sup>1</sup>	4,399,680,200	4,400 <sup>1</sup>
<b>Share capital</b>		<b>4,400</b>		<b>4,400</b>
<b>Conversion and reserve capital<sup>2</sup></b>				
Unlimited conversion capital (at CHF 1 par value per share) <sup>3</sup>	unlimited	unlimited	unlimited	unlimited
Reserve capital (at CHF 1 par value per share) <sup>4</sup>	4,399,665,200	4,400	4,399,665,200	4,400
of which used for capital increases	0	0	0	0
of which reserved for planned capital increases	0	0	0	0

<sup>1</sup> The dividend eligible capital equals the total nominal value. As of December 31, 2016 and 2015, the total nominal value of registered shares was CHF 4,399,680,200 and fully paid.

<sup>2</sup> Represents authorized capital.

<sup>3</sup> For information on principal characteristics of unlimited conversion capital, refer to Article 4d in the Articles of Association of the Bank parent company.

<sup>4</sup> For information on principal characteristics of reserve capital, refer to Article 4e in the Articles of Association of the Bank parent company.

### Non-distributable reserves

As of December 31, 2016 and 2015, the amount of non-distributable reserves in accordance with the Swiss Code of Obligations and the Bank parent company's articles of association was CHF 2,200 million. Not reflected in this amount are reserves which the Bank parent company is required to retain in order to meet the regulatory capital requirements as a going concern.

### Transactions with shareholders

In 2016, the Group parent company made an a-fonds-perdu contribution in kind (i.e., without consideration) of CHF 4 million to the

Bank parent company consisting of 100% participating interests in FIDES Treasury Services AG. FIDES Treasury Services AG was subsequently transferred to CS Schweiz in connection with the transfer of assets on November 20, 2016. In 2015, the Bank parent company paid out a dividend in kind of CHF 70 million to the Group parent company, consisting primarily of financial assets and liabilities related to the transfer of the credit and charge cards issuing business to Swisscard AECS GmbH, an entity in which the Group holds a significant equity interest.

► Refer to "Statement of changes in equity" and "Note 1 – Business activities, developments and subsequent events" for further information on transactions with shareholders.

## 22 Significant shareholders and groups of shareholders

end of	2016						2015
	Number of shares (million)	Total nominal value (CHF million)	Share-holding (%)	Number of shares (million)	Total nominal value (CHF million)	Share-holding (%)	
<b>Direct shareholders</b>							
Credit Suisse Group AG	4,400 <sup>1</sup>	4,400	100.00	4,400 <sup>1</sup>	4,400	100.00	
<b>Indirect shareholders through Credit Suisse Group AG<sup>2</sup></b>							
Chase Nominees Ltd. <sup>3</sup>	705	705	16.03	704	704	15.99	
Nortrust Nominees Ltd. <sup>3</sup>	237	237	5.39	–	–	– <sup>4</sup>	
The Bank of New York Mellon <sup>3</sup>	226	226	5.14	–	–	– <sup>4</sup>	
Crescent Holding GmbH	224	224	5.10	–	–	– <sup>4</sup>	

<sup>1</sup> All shares with voting rights.

<sup>2</sup> 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 or ADS depository bank.

<sup>3</sup> Nominee holdings 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.

<sup>4</sup> Participation was lower than the disclosure threshold of 5%.

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

In addition to the shareholdings registered in the share register of the Group parent company, the Group parent company has obtained the following information directly from its shareholders and reported it to the SIX Swiss Exchange in accordance with the notification requirements of the Swiss Federal Act on Financial Market Infrastructure and Market Conduct in Securities and Derivatives Trading (FMIA). These shareholders may hold their shareholdings in Group shares through a nominee.

In a disclosure notification that the Group published on September 16, 2016, the Group was notified that as of September 8, 2016, The Olayan Group held 111.3 million shares, or 5.41%, of the registered Group shares issued as of the date of the notified transaction.

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 in 2014, 2015 and 2016.

In a disclosure notification that the Group published on August 30, 2016, the Group was notified that as of August 25, 2016, Capital Group Companies, Inc. held in aggregate 99.2 million registered shares and ◉ American Depositary Shares or a total of 5.051% voting rights of the registered Group shares issued as of the date of the notified transaction. In a disclosure notification

that the Group published on January 28, 2017, the Group was notified that Capital Group Companies, Inc.'s shareholdings and voting rights of Group shares had fallen below the 5% threshold as of January 25, 2017.

In 2016, the Group received disclosure notifications from Norges Bank and Qatar Holding LLC that their holdings of registered Group shares had fallen below the 5% threshold.

### Shareholders with a qualified participation

As of the date of the most recent notification received by the Group on November 11, 2016, Qatar Investment Authority (through Qatar Holding LLC) held approximately 4.93% of the Group's common shares and 12.81% purchase rights in the form of contingent convertible capital instruments, which will be converted into shares only in situations where the Group no longer meets specific regulatory capital requirements. As of the date of the most recent notification received by the Group on September 16, 2016, The Olayan Group (through Crescent Holding GmbH) held approximately 5.41% of the Group's common shares and 5.32% purchase rights consisting of 5.26% purchase rights in the form of contingent convertible capital instruments, which will be converted into shares only in situations where the Group no longer meets specific regulatory capital requirements, and 0.055% from short put options. In addition to the Group, which is the direct shareholder of the Bank parent company, Qatar Investment Authority and The Olayan Group are shareholders with a qualified participation in accordance with Bank Law.

► Refer to "Note 24 – Amounts receivable from and amounts payable to related parties" for further information on shareholders with a qualified participation.

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

► Refer to “Compensation” in IV – Corporate Governance and Compensation for a comprehensive disclosure of compensation to the Board of Directors and the Executive Board of Credit Suisse Group AG.

► Refer to “Note 23 – Shareholdings of the Board of Directors, Executive Board and employees” in VI – Parent company financial statements – Credit Suisse Group AG for information on shareholdings of the Board of Directors and the Executive Board of the Bank parent company.

### Share-based awards outstanding

end of	2016		2015	
	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
<b>Share-based awards<sup>1</sup></b>				
Employees	19.8	290	18.9	410
<b>Share-based awards</b>	<b>19.8</b>	<b>290</b>	<b>18.9</b>	<b>410</b>

<sup>1</sup> All share-based compensation plans of the Bank parent company are plans based on virtual shares and either settled in shares of the Group or in cash on the basis of the fair value of the Group shares.

All members of the Board of Directors and the Executive Board of the Bank parent company are also members of the Board of Directors and the Executive Board of the Group parent company. Compensation to members of the Executive Board is determined by the Group parent company 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. A presentation of deferred share-based compensation awards to members of the Executive Board recorded by the Bank parent company would not appropriately reflect the Executive Board of the Bank parent company, as it would only consider those members for whom compensation is administrated by the Bank parent company.

As of December 31, 2016 and 2015, the Bank parent company did not have any option plans with outstanding options.

### Compensation plans

In January 2016, the Bank parent company granted share awards, performance share awards and Contingent Capital Awards (CCA) as deferred compensation. Deferred compensation is awarded to employees with total compensation above CHF/USD 250,000 or the local currency equivalent. Compensation plans are designed to align the interests of employees and shareholders, as well as comply with the expectations of regulators that a substantial portion of variable compensation should be granted in this form.

All share-based compensation plans of the Bank parent company are plans based on virtual shares and either settled in shares of the Group parent company (Group shares) or in cash on the basis of the fair value of the Group shares.

### Share awards

Share awards granted in January 2016 are similar to those granted in January 2015. 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, such that the share awards vest equally on each of the three anniversaries of the grant date. The value of the share awards is solely dependent on the Group share price at the time of delivery.

On January 19, 2016, the Bank parent company granted 6.1 million share awards with a total value of CHF 121 million. The number of share awards granted to employees was determined by dividing the deferred component of variable compensation being granted as share awards by the average price of a Group share over the 12 business days ended January 18, 2016. The fair value of each share award was CHF 18.62, the Group share price on the grant date. While share awards granted between January 1, 2014 and December 31, 2015 did not include the right to receive dividend equivalents, share awards granted after January 1, 2016 include the right to receive dividend equivalents, upon vesting.

### Performance share awards

Members of the Executive Board, managing directors and all material risk takers and controllers (employees whose activities are considered to have a potentially material impact on the Group'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 explicit performance-related malus provisions.

Each performance share award granted entitles the holder of the award to receive one Group share. Performance share awards vest over three years, such that the performance share awards vest equally on each of the three anniversaries of the grant date. Performance share awards granted for 2015 are subject to a negative adjustment in the event of a divisional loss by the division in which the employees worked as of December 31, 2015, or a negative ROE of the Group, whichever results in a larger adjustment. For employees in corporate

functions and the Strategic Resolution Unit, the negative adjustment only applies in the event of a negative ROE of the Group and is not linked to the performance of the divisions. 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.

Outstanding performance share awards granted in previous years are subject to a negative adjustment in the event of a negative strategic ROE of the Group, which is calculated based on Core Results, adjusted for the goodwill impairment charge related to the re-organization of the former Investment Banking division.

On January 19, 2016, the Bank parent company granted 4.1 million performance share awards with a total value of CHF 82 million. The number of performance share awards granted to employees was determined by dividing the deferred component of variable compensation being granted as performance share awards by the average price of a Group share over the 12 business days ended January 18, 2016. The fair value of each performance share award was CHF 18.62, the Group share price on the grant date. While performance share awards granted between January 1, 2014 and December 31, 2015 did not include the right to receive dividend equivalents, performance share awards granted after January 1, 2016 include the right to receive dividend equivalents, upon vesting.

The amount of the potential negative adjustment for a loss at the divisional level is applicable to all outstanding performance share awards (including the short-term incentive, STI) awards of Executive Board members who lead business divisions and is disclosed in the following table.

#### Potential downward adjustments of performance share and STI awards

##### Downward adjustment if division incurs a loss

Division pre-tax loss (in CHF billion)	Adjustment on award balance (in %)
(1.00)	(15%)
(2.00)	(30%)
(3.00)	(45%)
(4.00)	(60%)
(5.00)	(75%)
(6.00)	(90%)
(6.67)	(100%)

#### Contingent Capital Awards

CCA were granted in January 2016, 2015 and 2014 as part of 2015, 2014 and 2013 deferred variable compensation and have rights and risks similar to those of certain contingent capital instruments issued by the Group in the market. CCA provide a conditional right to receive semi-annual cash payments of interest equivalents at a rate of 4.23%, 4.85% and 4.75% per annum over the six-month Swiss franc London Interbank Offered Rate (LIBOR) or 5.41%, 5.75% and 5.33% per annum over the six-month US

dollar LIBOR, for Swiss franc and US-denominated awards for 2016, 2015 and 2014, respectively, until settled. The rate was 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. For CCA granted in January 2016, employees who received compensation in Swiss francs received CCA denominated in Swiss francs and all other employees received CCA denominated in US dollars.

CCA are scheduled to vest on the third anniversary of the grant date and will be expensed over three years from the grant date. However, because CCA qualify as going-concern loss-absorbing capital of the Group, the timing and form of distribution upon settlement is subject to approval by the 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 currency denomination will be converted into the local currency of each respective employee. The Group intends to grant CCA as one of its annual deferred variable compensation awards in future years.

CCA have loss-absorbing features such that prior to settlement, the principal amount of the CCA would be written down to zero 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.

On January 19, 2016 and January 16, 2015, the Bank parent company awarded CHF 35 million and CHF 55 million, respectively, of CCA that are expensed over the three-year period from the grant date. CCA were awarded as deferred variable compensation to managing directors and directors.

#### Other cash awards

Other cash awards include several smaller deferred cash compensation plans.

#### Deferred compensation expenses

in	2016	2015
<b>Deferred compensation expense (CHF million)</b>		
Share awards <sup>1</sup>	72	153
Contingent Capital share awards	4	0
Performance share awards	28	82
Contingent Capital Awards (cash awards)	33	63
Other cash awards	20	32
Discontinued plans <sup>2</sup>	3	(3)
<b>Deferred compensation expense</b>	<b>160</b>	<b>327</b>

<sup>1</sup> Includes special share awards.

<sup>2</sup> Includes all plans that are discontinued but may still incur deferred compensation expense until final vesting of the related awards.



## 24 Amounts receivable from and amounts payable to related parties

end of	2016		2015	
	Amounts receivable	Amounts payable	Amounts receivable	Amounts payable
<b>Amounts receivable from and/or payable to related parties (CHF million)</b>				
Shareholders with a qualified participation	3,011	11,595	2,771	11,600
Group companies	196,262	84,846	224,841	90,933
Affiliated companies	6,193	530	8,507	846
Members of governing bodies <sup>1</sup>	28	54	34	56

<sup>1</sup> Includes both the governing bodies of the Bank parent company (Credit Suisse AG) and the governing bodies of the Group holding company (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, the Bank parent company issues guarantees, loan commitments and enters into other agreements with group companies which are recorded as off-balance sheet transactions by the Bank parent company. As of December 31, 2016 and 2015, the Bank parent company had contingent liabilities of CHF 164,684 million and CHF 165,125 million, respectively, and irrevocable loan commitments of CHF 2,036 million and CHF 823 million, respectively, of which substantially all were related to transactions with group companies.

As shareholder of Credit Suisse International, an unlimited company incorporated in England and Wales, the Bank parent company has joint and several unlimited obligations to meet any insufficiency in the assets in the event of liquidation.

### Additional information on related party transactions

Transactions (such as securities transactions, payment transfer services, borrowings and compensation for deposits) with related parties are carried out on an arm's length basis.

► Refer to "Off-balance sheet transactions", "Statement of changes in equity" and "Note 1 – Business activities, developments and subsequent events" for further information on related party transactions.

### STS Trading

On November 20, 2016, with retrospective effect between the parties as of August 1, 2016, the Bank parent company entered into a contractual relationship with CS Schweiz. The purpose of this contractual relationship is to collaboratively operate the Swiss portion of the STS Trading business while acting independently, with each of CS Schweiz and the Bank parent company acting in its own name externally and not in joint name. The collaboration does not have legal effects for external parties and has been entered into for a fixed minimum period of three years, renewable in three year increments. Net profits of the collaboration are shared equally between the Bank parent company and CS Schweiz. Net losses are shared equally between the Bank parent company and CS Schweiz, with the maximum loss participation for CS Schweiz limited to 50% of the aggregated gains reported by the parties with respect to the collaboration for the preceding three financial years. For the three financial years until December 31, 2018, including CS Schweiz's first financial year from August 1 to December 31, 2016, the maximum loss participation is determined by a fixed amount for the first year, and by a combination of a fixed amount and a variable amount depending on prior period net profits with respect to the collaboration for the following two years.

## 25 Total assets by country rating

end of Internal ratings <sup>1</sup>	2016		2015	
	CHF million <sup>2</sup>	%	CHF million <sup>2</sup>	%
<b>Total assets by internal country rating (CHF million)</b>				
AAA	162,068	31.9%	169,719	25.6%
AA	186,255	36.7%	209,978	31.7%
A	31,273	6.2%	23,269	3.5%
BBB	15,751	3.1%	21,556	3.3%
BB	6,232	1.2%	4,129	0.6%
B	3,549	0.7%	3,014	0.5%
CCC	7,793	1.5%	9,308	1.4%
CC	1,325	0.3%	0	0.0%
D	0	0.0%	26	0.0%
Foreign assets	414,246	81.6%	440,999	66.6%
Domestic assets	93,554	18.4%	221,011	33.4%
<b>Total assets</b>	<b>507,800</b>	<b>100.0%</b>	<b>662,010</b>	<b>100.0%</b>

<sup>1</sup> 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.

<sup>2</sup> Net balance sheet exposure by country rating of risk domicile.

## 26 Fiduciary transactions

end of	2016	2015
<b>Fiduciary transactions (CHF million)</b>		
Fiduciary placements with third-party institutions	2,757	4,464
<b>Fiduciary transactions</b>	<b>2,757</b>	<b>4,464</b>

## 27 Assets under management

### Assets under management

Assets under management include assets for which the Bank parent company provides investment advisory or discretionary asset management services, investment fund assets and assets invested in other investment-fund-like pooled investment vehicles managed by the Bank parent company. The classification of assets under management is conditional upon the nature of the services provided by the Bank parent company 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, the Bank parent company must currently or in the foreseeable future expect to provide a service where the involvement of the Bank parent company'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 the Bank parent company 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 a holistic client 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.

A portion of the Bank parent company's assets under management results from double counting. Double counting arises when assets under management are subject to more than one level of asset management services. Each separate advisory or discretionary service provides additional benefits to the client and represents

additional income for the Bank parent company. Specifically, double counting primarily results from the investment of assets under management in collective investment instruments managed by the Bank parent company. The extent of double counting is disclosed in the following table.

### Assets under management

end of	2016	2015
<b>Assets under management (CHF billion)</b>		
Assets in collective investment instruments managed by Credit Suisse AG	68.9	106.0
Assets with discretionary mandates	166.8	171.0
Other assets under management	345.4	738.8
<b>Assets under management (including double counting)</b>	<b>581.1</b>	<b>1,015.8</b>
of which double counting	6.5	35.3

### Changes in assets under management

	2016	2015
<b>Changes in assets under management (CHF billion)</b>		
<b>Assets under management at beginning of period <sup>1</sup></b>	<b>1,015.8</b>	<b>1,053.0</b>
Net new assets/(Net asset outflows)	21.1	36.3
Market movements, interest, dividends and foreign exchange	12.2	(25.9)
of which market movements, interest and dividends <sup>2</sup>	7.0	(4.5)
of which foreign exchange	5.2	(21.4)
Other effects	(468.0) <sup>3</sup>	(47.6) <sup>4</sup>
<b>Assets under management at end of period <sup>1</sup></b>	<b>581.1</b>	<b>1,015.8</b>

<sup>1</sup> Including double counting.

<sup>2</sup> Net of commissions and other expenses and net of interest expenses charged.

<sup>3</sup> Includes a reduction in assets under management of CHF 508.1 billion related to the transfer of assets from the Bank parent company to CS Schweiz on November 20, 2016, with retrospective effect as of August 1, 2016, partially offset by the impact of CS Schweiz assets that remained invested in products managed by the Bank parent company.

<sup>4</sup> Includes a reduction of CHF 41.4 billion related to the Bank parent company's updated assets under management policy which became effective July 1, 2015. The updated policy primarily introduced more specific criteria and indicators to be applied in evaluating whether client assets qualify as assets under management.

### Net new assets

Net new assets measure the degree of success in acquiring assets under management or increasing 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 Bank parent company's success 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

# Proposed appropriation of retained earnings

## Proposed appropriation of retained earnings

end of	2016
<b>Retained earnings (CHF million)</b>	
Retained earnings carried forward	226
Net loss	(2,837)
Transfer from legal income reserves	2,621
<b>Retained earnings available for appropriation</b>	<b>10</b>
Dividend	(10)
<b>Retained earnings to be carried forward</b>	<b>0</b>

## Transfer to retained earnings out of legal income reserves

end of	2016
<b>Legal income reserves (CHF million)</b>	
<b>Balance before transfer of legal income reserves</b>	<b>6,081</b>
Transfer to retained earnings	(2,621)
<b>Balance after transfer of legal income reserves</b>	<b>3,460</b>