

Credit Suisse Management response to the Paul Weiss report

Introduction

We acknowledge the findings of the report based on the independent external investigation into Archegos Capital Management (Archegos) and would like to reiterate that our Board of Directors and Executive Board fully share the concerns raised by Paul, Weiss, Rifkind, Wharton & Garrison LLP (hereafter "Paul, Weiss Report"). The bank will not only continue to remediate all risk management shortcomings identified, but furthermore use the Archegos incident as a turning point for its overall approach to risk management. As such, the publication of the Paul, Weiss Report demonstrates our best efforts to enhance transparency and reiterates that we will put risk management at the heart of our decision-making processes with the goal to further strengthen the effectiveness of our business practices to serve our market-leading client franchises globally. In this spirit, our response to the report, as set out below, provides a comprehensive overview of the activities the bank has initiated and, in parts, already implemented.

In the last three months, the Credit Suisse Executive Board, under the guidance and oversight of the Board of Directors, has initiated an extensive set of measures. This program started at the end of March and has been overseen by the Tactical Crisis Committee (TCC), a board-level committee chaired by the Chairman of the Board and further consisting of the Chair of the Risk Committee, the Chair of the Audit Committee and the Chair of the Conduct and Financial Crime Control Committee in close collaboration with selected members of senior management, including the Group Chief Executive Officer, the ad interim Group Chief Risk Officer (CRO), the Group Chief Financial Officer and the General Counsel.

The program, under the direction of the Chair of the Risk Committee and the Group Chief Risk Officer, includes a thematic review of all large group-wide exposures, as well as the revision of limit excess controls and escalation requirements. Through this program, Credit Suisse has already initiated a number of activities, including but not limited to:

- Reviewing and upgrading the bank's Risk governance and underlying reporting, reducing risk thresholds across the organization and introducing additional approval requirements for significant transactions;
- Recruiting additional resources for the Risk function whilst creating new Risk roles previously not in place;
- Demanding a significant reduction of Risk-Weighted Assets (RWA) and Leverage Exposure in the bank's Prime Services business as well as an increase in margin levels. In addition, all hedge fund clients have been moved to dynamic margining;
- Implementing a reduction in Group risk appetite while the bank's over-arching Group Strategy Review is underway under the leadership of the Chairman of the Board and the Group CEO; and

These steps serve a critical purpose not only in addressing the findings and recommendations of the Paul, Weiss Report, but also, importantly, in implementing best practices around a broader set of risk management measures. They fundamentally underpin the Chairman's focus on risk culture, individual as well as collective accountability, and management's renewed focus on balancing risks with rewards.

Leadership, management oversight and staffing

Following the Archegos event, Credit Suisse took immediate action on relevant personnel at all levels, across first and second lines of defense. Significantly, we appointed a new Investment Bank CEO, an ad interim Chief Risk Officer and an ad interim Chief Compliance Officer, all of whom have significant Credit Suisse as well as

Risk and Compliance knowledge, allowing for stabilization of these functions. Earlier this week, we announced the appointment of a new, permanent Chief Risk Officer who will join the bank in early 2022.

In the first line of defense, we appointed ad interim Heads of Equities and Prime Services. We have also created the role of Head of IB Chief Business Risk Officer, a function designed to facilitate our focus on risk and capital management from a business perspective. This individual will work closely with second-line risk partners and will be supported by a small team of experienced risk experts embedded in key business lines. The hiring of these positions has been initiated.

In the second line of defense, we have appointed a new risk manager to lead Prime Services Risk. In addition, approximately 20 new permanent roles have been created in Credit Risk across our global and divisional teams to further strengthen the risk function. Furthermore, we have created a Counterparty Market Risk function led by a senior risk professional to enhance the interaction between market and credit risk management.

Supported by our dedicated Human Resources lead, we have reviewed the Managing Director structure within the Risk function. We have initiated a substantial build-out of the Credit Risk function with a number of these roles already filled and ongoing support from external experts. In addition, a comprehensive bottom-up review of the overall Credit Risk organization, including seniority and skill-sets, is close to completion.

Immediately after the Archegos event, we appointed an external risk-management consultant team to provide additional support and bandwidth. They were tasked with market benchmarking in relation to risk-management capabilities, processes and procedures across both the first and second lines of defense with a particular (but not exclusive) emphasis on our Prime Services business.

A key aspect of the overall review considered individual accountability, with subsequent actions taken on 23 individuals. These actions include termination of employment (nine individuals) and severe monetary penalties totaling approximately USD 70 million in the aggregate via compensation adjustment tools encompassing up to 100% malus (the cancellation of outstanding deferred awards) and some clawback (the recovery of previously paid amounts). The bank will provide a full accounting of the implicit and explicit compensation consequences for the Archegos incident in the Compensation Report after the close of the year. In some instances, we have also identified and called out individuals who distinguished themselves by having acted in the best interest of the firm.

Roles and responsibilities

As clear accountability is vital to successful risk management, we have started a review across all businesses and legal entities to identify possible conflicts of interests and to clearly separate sales/client responsibilities from risk functions already within the first line. In order to strengthen clarity of roles and foster a culture of individual accountability, the bank has reviewed all key committees chaired by senior management. For a broad set of senior management positions across the bank, we are currently reviewing responsibilities and plan to introduce enhanced risk-sensitive performance scorecards. Linked to this effort, the bank has launched a comprehensive review of potential conflicts of interest.

From a roles and responsibilities perspective, the bank is looking to minimize co-headed positions and multi-hatted roles. This is to mitigate potential conflict situations and to ensure sufficient bandwidth to manage and address key risk themes. Initial actions have been completed, such as the split of the Chief Risk and Chief Compliance Officer functions. For others, such as dual-hatted senior managers within the Risk organization, a review process is in progress. Minimizing co-headed and multi-hatted roles also addresses the need for adequate experience and skill levels of all key function holders.

Strengthening of processes

Credit Suisse is fully committed to encouraging upward as well as peer group escalations. This is a core aspect to successful risk management. Senior management is currently reviewing options to strengthen a holistic, comprehensive approach to risk management, including introducing stronger escalation protocols – particularly around limit excesses to more senior levels – and is taking further steps to promote a speak-up culture across the bank.

Initial measures have been completed, including the implementation of a four-eyes principle to review and remediate limit excesses, as well as a strengthened escalation protocol that requires any significant and persistent limit excesses of five or more business days to be escalated to the Executive Board and subsequently to the Board Risk Committee. The number of such excesses has been significantly reduced, while the remaining incidents will be further reduced and are being closely monitored and assessed on a continuous basis.

In addition, the TCC is engaged in the assessment and approval of large transactions. A clear set of thresholds determines when a transaction requires TCC approval. This process has been instrumental for management to align its risk appetite with the Board, and will be integrated into normal business routines after completion of the current remediation program.

Risk appetite review and additional counterparty credit risk related measures

In April, we conducted an immediate and comprehensive risk appetite revision, where we revised down risk appetite across the portfolio by ~15%. A comprehensive review of the Prime Services business and its hedge fund clients was initiated. In this context, Prime Services reduced its RWA usage by ~55%, and its leveraged exposure by ~40% between end 1Q21 and end 2Q21.

We also conducted additional deep dives in relation to single-name and collateral concentrations and, as a result, further refined our risk appetite. Furthermore, a targeted review focusing particularly on hedge fund clients, has been used to validate the appropriateness of margin parameters for significant Prime Services clients and to increase margins for a significant number of counterparties.

To better manage counterparty credit risk appetite, we have complemented our existing stress-testing framework. Additional portfolio scenarios have been implemented and cascaded across key product lines to align our overall reduced risk appetite along country, product and counterparty levels with day-to-day risk taking. Furthermore, we are in the process of reviewing our largest clients globally from both financial and non-financial risk perspectives.

We have strengthened counterparty governance and processes. This included a re-evaluation of our limit framework, drawing a clearer distinction between Counterparty Risk Appetite Limits, Control Limits and the current Flag/Warning structure with clear ownership and escalation procedures. This is expected to produce a firm-wide solution that increases transparency and efficiency of limit monitoring and management. We have reinstituted our Prime Services Risk Committee and have established a new Counterparty Market Risk function to improve the way we measure counterparty risk. This function reports to the Head of Market Risk with an additional reporting line to the IB CRO.

Risk information and reporting

Credit Suisse has enhanced its reporting on hedge funds and family offices which operate like hedge funds, and has added more specific metrics relevant for this group of counterparties, including a range of stress tests. We enhanced Prime Services gross market value limit monitoring including limit exception approval / remediation / escalation information, and a special daily hedge fund risk report is now in place.

Following a best practices review around available risk metrics with an external party, we have implemented additional risk indicators with initial focus on Prime Services hedge funds and selected portfolios within Equity Derivatives. A detailed plan of the strategic implementation across other business lines is in progress, including further enhancements on exposure metrics and the underlying methodology, as well as the rollout of a dedicated training program for risk management staff.

Management Information heavily draws from data and technology in order to provide relevant information in a timely manner. We are implementing improvements to our infrastructure, particularly on the credit risk side, to ensure risk information is complete and granular, consistent between first and second lines of defense, and up

to date. Consistency across different lines is also key for control infrastructure addressing legal, compliance and treasury operations.

Risk culture

As previously outlined, the recent events have triggered a detailed review of the bank's risk governance with a particular focus on de-risking and improving limit monitoring and control processes, and strengthening risk oversight. While improving risk culture and embedding risk management into every decision of the bank is an integral part of our strategy and will require ongoing effort, a number of specific activities have been launched or are already successfully completed.

Front Office challenge of risk decisions made by the accountable risk managers has been tempered by the introduction of reporting requirements, including escalations reported to the Board Risk Committee Chair.

By establishing an Executive Board-level Risk Management Committee that brings together previously separate risk committees, we will further strengthen executive level governance and accountability of risk management. The committee will have strong oversight of both the first and second lines of defense and will meet frequently to underpin the importance of risk management for the bank.

Furthermore, we have launched an employee survey to obtain feedback from the broader organization that will provide insights into the strengths and weaknesses in relation to our core IMPACT values (Inclusion, Meritocracy, Partnership, Accountability, Client Focus, Trust) and in relation to our speak-up culture. Finally, an improved written set of duties and responsibilities for all relevant management positions based on performance scorecards is expected to introduce a strong risk focus for all executives. As part of this effort, we will review reporting lines to eliminate potential conflicts of interest in order to ensure full independence of the second line of defense.

As we critically review and revisit our approach to risk management at Credit Suisse, we recognize that the whole must be bigger than the sum of the parts. These changes introduce individual enhancements that are foundational and imperative to proper risk management for any firm of our size, breadth and complexity. However, this incident has reinforced that there is a need to address our broader culture, which will take time. A culture of individual and collective accountability starts with the senior leadership, and we believe we have initiated the first steps in this journey. With this we are confident, in due course every employee will again become a risk manager at Credit Suisse. To achieve this outcome, the Board of Directors and the Executive Board will work relentlessly.

In order to access the full Paul, Weiss report, click on www.credit-suisse.com/archegos

Cautionary statement regarding forward-looking information

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

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

Words such as "believes," "anticipates," "expects," "intends" and "plans" and similar expressions are intended to identify forward-looking statements but are not the exclusive means of identifying such statements. We do not intend to update these forward-looking statements.

By their very nature, forward-looking statements involve inherent risks and uncertainties, both general and specific, and risks exist that predictions, forecasts, projections and other outcomes described or implied in forward-looking statements will not be achieved. We caution you that a number of important factors could cause results to differ materially from the plans, targets, goals, expectations, estimates and intentions expressed in such forward-looking statements and that the COVID-19 pandemic creates significantly greater uncertainty about forward-looking statements in addition to the factors that generally affect our business. These factors include:

- the ability to maintain sufficient liquidity and access capital markets;
- market volatility and interest rate fluctuations and developments affecting interest rate levels, including the persistence of a low or negative interest rate environment;
- the strength of the global economy in general and the strength of the economies of the countries in which we conduct our operations, in particular the risk of negative impacts of COVID-19 on the global economy and financial markets and the risk of continued slow economic recovery or downturn in the EU, the US or other developed countries or in emerging markets in 2021 and beyond;
- the emergence of widespread health emergencies, infectious diseases or pandemics, such as COVID-19, and the actions that may be taken by governmental authorities to contain the outbreak or to counter its impact;
- potential risks and uncertainties relating to the severity of impacts from COVID-19 and the duration of the pandemic, including potential material adverse effects on our business, financial condition and results of operations;
- the direct and indirect impacts of deterioration or slow recovery in residential and commercial real estate markets;
- adverse rating actions by credit rating agencies in respect of us, sovereign issuers, structured credit products or other credit-related exposures;
- the ability to achieve our strategic goals, including those related to our targets, ambitions and financial goals;
- the ability of counterparties to meet their obligations to us and the adequacy of our allowance for credit losses;
- the effects of, and changes in, fiscal, monetary, exchange rate, trade and tax policies;
- the effects of currency fluctuations, including the related impact on our business, financial condition and results of operations due to moves in foreign exchange rates;
- political, social and environmental developments, including war, civil unrest or terrorist activity and climate change;
- the ability to appropriately address social, environmental and sustainability concerns that may arise from our business activities;
- the effects of, and the uncertainty arising from, the UK's withdrawal from the EU;
- the possibility of foreign exchange controls, expropriation, nationalization or confiscation of assets in countries in which we conduct our operations;
- operational factors such as systems failure, human error, or the failure to implement procedures properly;
- the risk of cyber attacks, information or security breaches or technology failures on our reputation, business or operations, the risk of which is increased while large portions of our employees work remotely;
- the adverse resolution of litigation, regulatory proceedings and other contingencies;
- actions taken by regulators with respect to our business and practices and possible resulting changes to our business organization, practices and policies in countries in which we conduct our operations;
- the effects of changes in laws, regulations or accounting or tax standards, policies or practices in countries in which we conduct our operations;
- the expected discontinuation of LIBOR and other interbank offered rates and the transition to alternative reference rates;
- the potential effects of changes in our legal entity structure;
- competition or changes in our competitive position in geographic and business areas in which we conduct our operations;
- the ability to retain and recruit qualified personnel;
- the ability to maintain our reputation and promote our brand;
- the ability to increase market share and control expenses;
- technological changes instituted by us, our counterparties or competitors;
- the timely development and acceptance of our new products and services and the perceived overall value of these products and services by users;
- acquisitions, including the ability to integrate acquired businesses successfully, and divestitures, including the ability to sell non-core assets; and
- other unforeseen or unexpected events and our success at managing these and the risks involved in the foregoing.

We caution you that the foregoing list of important factors is not exclusive. When evaluating forward-looking statements, you should carefully consider the foregoing factors and other uncertainties and events, including the information set forth in "Risk factors" in *I – Information on the company* in our Annual Report 2020 and in "Risk factor" in *I – Credit Suisse results – Credit Suisse* in our 1Q21 Financial Report.

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