CREDIT SUISSE GROUP AG
Form 6-K
August 28, 2014

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

Form 6-K

REPORT OF FOREIGN PRIVATE ISSUER PURSUANT TO RULE 13a-16 OR 15d-16
UNDER THE SECURITIES EXCHANGE ACT OF 1934
August 28, 2014
Commission File Number 001-15244
CREDIT SUISSE GROUP AG

(Translation of registrant's name into English)
Paradeplatz 8, CH 8001 Zurich, Switzerland
(Address of principal executive office)

Indicate by check mark whether the registrant files or will file annual reports under cover of Form 20-F or Form 40-F.

Form 20-F Form 40-F

Indicate by check mark if the registrant is submitting the Form 6-K in paper as permitted by Regulation S-T Rule 101(b)(1):

Note: Regulation S-T Rule 101(b)(1) only permits the submission in paper of a Form 6-K if submitted solely to provide an attached annual report to security holders.

Indicate by check mark if the registrant is submitting the Form 6-K in paper as permitted by Regulation S-T Rule 101(b)(7):

Note: Regulation S-T Rule 101(b)(7) only permits the submission in paper of a Form 6-K if submitted to furnish a report or other document that the registrant foreign private issuer must furnish and make public under the laws of the jurisdiction in which the registrant is incorporated, domiciled or legally organized (the registrant's "home country"), or under the rules of the home country exchange on which the registrant's securities are traded, as long as the report or other document is not a press release, is not required to be and has not been distributed to the registrant's security holders, and, if discussing a material event, has already been the subject of a Form 6-K submission or other Commission filing on EDGAR.

Indicate by check mark whether the registrant by furnishing the information contained in this Form is also thereby furnishing the information to the Commission pursuant to Rule 12g3-2(b) under the Securities Exchange Act of 1934.

Yes No

If "Yes" is marked, indicate below the file number assigned to the registrant in connection with Rule 12g3-2(b): 82-.

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

CREDIT SUISSE GROUP AG

(Registrant)

Date: August 28, 2014

By:

/s/ Joachim Oechslin

Joachim Oechslin

Chief Risk Officer

By:

/s/ David R. Mathers

David R. Mathers

Chief Financial Officer

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

Basel III

Pillar 3 – disclosures

6M14

Composition of BIS regulatory capital

List of abbreviations

A	
ABS	Asset-backed securities
ACVA	Advanced credit valuation adjustment approach
A-IRB	Advanced Internal Ratings-Based Approach
AMA	Advanced Measurement Approach
B	
BFI	Banking, financial and insurance
BIS	Bank for International Settlements
C	
CARMC	Capital Allocation Risk Management Committee
CCF	Credit Conversion Factor
CCO	Chief Credit Officer
CCP	Central counterparties
CDO	Collateralized Debt Obligation
CDS	Credit Default Swap
CET1	Common equity tier 1
CLO	Collateralized Loan Obligation
CMBS	Commercial mortgage-backed securities
CMSC	Credit Model Steering Committee
CRM	Credit Risk Management
CVA	Credit valuation adjustment
E	
EAD	Exposure at Default
EMIR	European Market Infrastructure Regulation
ERC	Economic Risk Capital
F	
FINMA	Swiss Financial Market Supervisory Authority FINMA
G	
GRR	Global Risk Review
G-SIB	Global systemically important banks
I	
IMA	Internal Models Approach
IMM	Internal Models Method
IRB	Internal Ratings-Based Approach
IRC	Incremental Risk Charge
L	
LGD	Loss Given Default
M	
MDB	Multilateral Development Banks
O	
OTC	Over-the-counter
P	
PD	Probability of Default
R	
RBA	Ratings-Based Approach
RMBS	Residential mortgage-backed securities
RNIV	Risks not in value-at-risk

RPSC	Risk Processes and Standards Committee
S	
SFA	Supervisory Formula Approach
SFT	Securities Financing Transactions
SMM	Standardized Measurement Method
SPE	Special purpose entity
SRW	Supervisory Risk Weights Approach
U	
US GAAP	Accounting principles generally accepted in the US
V	
VaR	Value-at-Risk

Introduction

General

The purpose of this Pillar 3 report is to provide updated information as of June 30, 2014 on our implementation of the Basel capital framework and risk assessment processes in accordance with the Pillar 3 requirements. This document should be read in conjunction with the Credit Suisse Annual Report 2013 and the Credit Suisse 1Q14 and 2Q14 Financial Report, which include important information on regulatory capital and risk management (specific references have been made herein to these documents).

Effective January 1, 2013, the Basel III framework was implemented in Switzerland along with the Swiss "Too Big to Fail" legislation and regulations thereunder (Swiss Requirements). Our related disclosures are in accordance with our current interpretation of such requirements, including relevant assumptions. Changes in the interpretation of these requirements in Switzerland or in any of our assumptions or estimates could result in different numbers from those shown in this report. Also, our capital metrics fluctuate during any reporting period in the ordinary course of business.

The Basel III framework includes higher minimum capital requirements and conservation and countercyclical buffers, revised risk-based capital measures, a leverage ratio and liquidity standards. The framework was designed to strengthen the resilience of the banking sector and requires banks to hold more capital, mainly in the form of common equity. The new capital standards are being phased in from 2013 through 2018 and are fully effective January 1, 2019 for those countries that have adopted Basel III.

> Refer to "Capital management" (pages 101 to 114) in III – Treasury, Risk, Balance sheet and Off-balance sheet in the Credit Suisse Annual Report 2013 for further information.

In addition to Pillar 3 disclosures we disclose the way we manage our risks for internal management purposes in the Annual Report.

> Refer to "Risk management" (pages 115 to 140) in III – Treasury, Risk, Balance sheet and Off-balance sheet in the Credit Suisse Annual Report 2013 for further information regarding the way we manage risk including economic capital as a Group-wide risk management tool.

Certain reclassifications may be made to prior periods to conform to the current period's presentation.

The Pillar 3 report is produced and published semi-annually, in accordance with Swiss Financial Market Supervisory Authority FINMA (FINMA) requirements.

This report was verified and approved internally in line with our Pillar 3 disclosure policy. The Pillar 3 report has not been audited by the Group's external auditors. However, it also includes information that is contained within the audited consolidated financial statements as reported in the Credit Suisse Annual Report 2013.

Additional regulatory disclosures

In addition to the Pillar 3 disclosures also refer to our website for further information on capital ratios of certain significant subsidiaries, quarterly reconciliation requirements and capital instruments disclosures (main features template and full terms and conditions).

> Refer to "Regulatory disclosures" under https://www.credit-suisse.com/investors/en/index.jsp

Scope of application

The highest consolidated entity in the Group to which the Basel III framework applies is Credit Suisse Group.

> Refer to "Regulation and supervision" (pages 24 to 34) in I – Information on the company and to "Capital management" (pages 101 to 114) in III – Treasury, Risk, Balance sheet and Off-balance sheet in the Credit Suisse Annual Report 2013 for further information on regulation.

Principles of consolidation

For financial reporting purposes, our consolidation principles comply with accounting principles generally accepted in the US (US GAAP). For capital adequacy reporting purposes, however, entities that are not active in banking and finance are not subject to consolidation (i.e. insurance, real estate and commercial companies). Also, FINMA does not require to consolidate private equity and other fund type vehicles for capital adequacy reporting. Further differences in consolidation principles between US GAAP and capital adequacy reporting relate to special purpose entities (SPEs) that are consolidated under a control-based approach for US GAAP but are assessed under a risk-based approach for capital adequacy reporting. The investments into such entities, which are not material to the Group, are treated in accordance with the regulatory rules and are either subject to a risk-weighted capital requirement or a deduction from regulatory capital.

All significant equity method investments represent investments in the capital of banking, financial and insurance (BFI) entities and are subject to a threshold calculation in accordance with the Basel framework.

> Refer to “Note 39 – Significant subsidiaries and equity method investments” (pages 337 to 339) in V – Consolidated financial statements – Credit Suisse Group in the Credit Suisse Annual Report 2013 for a list of significant subsidiaries and associated entities of Credit Suisse.

> Refer to “Note 3 – Business developments” (page 83) in III – Condensed consolidated financial statements – unaudited in the Credit Suisse 1Q14 Financial Report and “Note 3 – Business developments” (page 84) in III – Condensed consolidated financial statement – unaudited in the Credit Suisse 2Q14 Financial Report for additional information on business developments in 6M14.

Restrictions on transfer of funds or regulatory capital
We do not believe that legal or regulatory restrictions constitute a material limitation on the ability of our subsidiaries to pay dividends or our ability to transfer funds or regulatory capital within the Group.
> Refer to “Liquidity and funding management” (pages 94 to 100) and “Capital management” (pages 101 to 114) in III – Treasury, Risk, Balance sheet and Off-balance sheet in the Credit Suisse Annual Report 2013 for information on our liquidity, funding and capital management and dividends and dividend policy.

Capital deficiencies
The Group’s subsidiaries which are not included in the regulatory consolidation did not report any capital deficiencies in 6M14.

Remuneration
> Refer to “Compensation” (pages 176 to 204) in IV – Corporate Governance and Compensation in the Credit Suisse Annual Report 2013 for further information on remuneration.

Risk management oversight
Fundamental to our business is the prudent taking of risk in line with our strategic priorities. The primary objectives of risk management are to protect our financial strength and reputation, while ensuring that capital is well deployed to support business activities and grow shareholder value. Our risk management framework is based on transparency, management accountability and independent oversight. Risk measurement models are reviewed by an independent validation function and regularly presented to and approved by the relevant oversight committee.
> Refer to “Risk management oversight” (pages 115 to 118) in III – Treasury, Risk, Balance sheet and Off-balance sheet – Risk management in the Credit Suisse Annual Report 2013 for information on risk management oversight including risk governance, risk organization, risk types and risk appetite and risk limits.

The Group is exposed to several key banking risks such as:

– Credit risk (refer to section “Credit risk” on pages 15 to 35);
– Market risk (refer to section “Market risk” on pages 36 to 42);
– Interest rate risk in the banking book (refer to section “Interest rate risk in the banking book” on pages 43 to 44); and
– Operational risk.

> Refer to “Operational risk” (pages 139 to 140) in III – Treasury, Risk, Balance sheet and Off-balance sheet – Risk management in the Credit Suisse Annual Report 2013 for information on operational risk.

Capital

Capital structure under Basel III

The Basel Committee on Banking Supervision issued the Basel III framework, with higher minimum capital requirements and conservation and countercyclical buffers, revised risk-based capital measures, a leverage ratio and liquidity standards. The framework was designed to strengthen the resilience of the banking sector and requires banks to hold more capital, mainly in the form of common equity. The new capital standards are being phased in from 2013 through 2018 and are fully effective January 1, 2019 for those countries that have adopted Basel III.

> Refer to the table “Basel III phase-in requirements for Credit Suisse” (page 48) in II – Treasury, risk, balance sheet and off-balance sheet – Capital management – Regulatory capital framework in the Credit Suisse 2Q14 Financial Report for capital requirements and applicable effective dates during the phase-in period.

Under Basel III, the minimum common equity tier 1 (CET1) requirement is 4.5% of risk-weighted assets. In addition, a 2.5% CET1 capital conservation buffer is required to absorb losses in periods of financial and economic stress.

A progressive buffer between 1% and 2.5% (with a possible additional 1% surcharge) of CET1, depending on a bank’s systemic importance, is an additional capital requirement for global systemically important banks (G-SIB). The Financial Stability Board has identified us as a G-SIB and requires us to maintain a 1.5% progressive buffer.

In addition to the CET1 requirements, there is also a requirement for 1.5% additional tier 1 capital and 2% tier 2 capital. These requirements may also be met with CET1 capital. To qualify as additional tier 1 under Basel III, capital instruments must provide for principal loss absorption through a conversion into common equity or a write-down of principal feature. The trigger for such conversion or write-down must include a CET1 ratio of at least 5.125%.

Basel III further provides for a countercyclical buffer that could require banks to hold up to 2.5% of CET1 or other capital that would be available to fully absorb losses. This requirement is expected to be imposed by national regulators where credit growth is deemed to be excessive and leading to the build-up of system-wide risk.

Capital instruments that do not meet the strict criteria for inclusion in CET1 are excluded. Capital instruments that would no longer qualify as tier 1 or tier 2 capital will be phased out.

Swiss Requirements

The legislation implementing the Basel III framework in Switzerland in respect of capital requirements for systemically relevant banks goes beyond Basel III’s minimum standards, including requiring us, as a systemically relevant bank, to have the following minimum, buffer and progressive components.

> Refer to the chart “Swiss capital and leverage ratio phase-in requirements for Credit Suisse” (page 49) in II – Treasury, risk, balance sheet and off-balance sheet – Capital management – Regulatory capital framework in the Credit Suisse 2Q14 Financial Report for Swiss capital requirements and applicable effective dates during the phase-in period.

The minimum requirement of CET1 capital is 4.5% of risk-weighted assets.

The buffer requirement is 8.5% and can be met with additional CET1 capital of 5.5% of risk-weighted assets and a maximum of 3% of high-trigger capital instruments. High-trigger capital instruments must convert into common equity or be written off if the CET1 ratio falls below 7%.

The progressive component requirement is dependent on our size (leverage ratio exposure) and the market share of our domestic systemically relevant business. Effective in 2014, FINMA set our progressive component requirement at 3.66% for 2019. The progressive component requirement may be met with CET1 capital or low-trigger capital instruments. In order to qualify, low-trigger capital instruments must convert into common equity or be written off if the CET1 ratio falls below a specified percentage, the lowest of which may be 5%. In addition, until the end of 2017, the progressive component requirement may also be met with high-trigger capital instruments. Both high and low-trigger capital instruments must comply with the Basel III minimum requirements for tier 2 capital (including subordination, point-of-non-viability loss absorption and minimum maturity).

Similar to Basel III, the Swiss Requirements include a supplemental countercyclical buffer of up to 2.5% of risk-weighted assets that can be activated during periods of excess credit growth. Effective September 2013, the countercyclical capital buffer was activated and initially required banks to hold CET1 capital in the amount of 1% of their risk-weighted assets pertaining to mortgages that finance residential property in Switzerland. In January 2014, upon the request of the Swiss National Bank, the Swiss Federal Council further increased the countercyclical buffer from 1% to 2%, effective June 30, 2014. As of the end of 6M14, our countercyclical buffer was CHF 299 million, which is equivalent to an additional requirement of 0.10% of CET1 capital. The countercyclical buffer applies for purposes of both Bank for International Settlements (BIS) and FINMA requirements.

In 2013, FINMA introduced increased capital charges for mortgages that finance owner occupied residential property in Switzerland (mortgage multiplier) to be phased in through January 1, 2019. The mortgage multiplier applies for purposes of both BIS and FINMA requirements.

In December 2013, FINMA issued a decree (FINMA Decree)specifying capital adequacy requirements for the Bank, on a stand-alone basis (Bank parent company), and the Bank and the Group, each on a consolidated basis, as systemically relevant institutions.
Beginning in 1Q14, we adjusted the presentation of our Swiss capital metrics and terminology and we now refer to Swiss Core Capital as Swiss CET1 capital and Swiss Total Capital as Swiss total eligible capital. Swiss Total Capital previously reflected the tier 1 participation securities, which were fully redeemed in 1Q14. Swiss CET1 capital consists of BIS CET1 capital and certain other Swiss adjustments. Swiss total eligible capital consists of Swiss CET1 capital, high-trigger capital instruments, low-trigger capital instruments and additional tier 1 instruments and tier 2 instruments subject to phase-out and phase-in deductions from CET1.
> Refer to “Capital management” (pages 101 to 114) in III – Treasury, Risk, Balance sheet and Off-balance sheet in the Credit Suisse Annual Report 2013 and “Capital management” (pages 47 to 58) in II – Treasury, risk, balance sheet and off-balance sheet in the Credit Suisse 2Q14 Financial Report for information on our capital structure, eligible capital and shareholders’ equity, capital adequacy and leverage ratio requirements under Basel III and Swiss Requirements.

Description of regulatory approaches
The Basel framework provides a range of options for determining the capital requirements in order to allow banks and supervisors the ability to select approaches that are most appropriate. In general, Credit Suisse has adopted the most advanced approaches, which align with the way risk is internally managed. The Basel framework focuses on credit risk, market risk, operational risk and interest rate risk in the banking book. The regulatory approaches for each of these risk exposures and the related disclosures under Pillar 3 are set forth below.

Credit risk
Credit risk by asset class
The Basel framework permits banks a choice between two broad methodologies in calculating their capital requirements for credit risk by asset class, the internal ratings-based (IRB) approach or the standardized approach. Off-balance-sheet items are converted into credit exposure equivalents through the use of credit conversion factors (CCF).
The majority of our credit risk by asset class is with institutional counterparties (sovereigns, other institutions, banks and corporates) and arises from lending and trading activity in the Investment Banking and Private Banking & Wealth Management divisions. The remaining credit risk by asset class is with retail counterparties and mostly arises in the Private Banking & Wealth Management division from residential mortgage loans and other secured lending, including loans collateralized by securities.
> Refer to “Credit risk by asset class” in section “Credit risk” on pages 15 to 29 for further information.

Advanced-internal ratings-based approach
Under the IRB approach, risk weights are determined by using internal risk parameters and applying an asset value correlation multiplier uplift where exposures are to financial institutions meeting regulatory defined criteria. We have received approval from FINMA to use, and have fully implemented, the advanced-internal ratings-based (A-IRB) approach whereby we provide our own estimates for probability of default (PD), loss given default (LGD) and exposure at default (EAD). We use the A-IRB approach to determine our institutional credit risk and most of our retail credit risk.
PD parameters capture the risk of a counterparty defaulting over a one-year time horizon. PD estimates are mainly derived from models tailored to the specific business of the respective obligor. The models are calibrated to the long run average of annual internal or external default rates where applicable. For portfolios with a small number of empirical defaults (less than 20), low default portfolio techniques are used.
LGD parameters consider seniority, collateral, counterparty industry and in certain cases fair value markdowns. LGD estimates are based on an empirical analysis of historical loss rates and are calibrated to reflect time and cost of recovery as well as economic downturn conditions. For much of the Private Banking & Wealth Management loan

portfolio, the LGD is primarily dependent upon the type and amount of collateral pledged. For other retail credit risk, predominantly loans secured by financial collateral, pool LGDs differentiate between standard and higher risks, as well as domestic and foreign transactions. The credit approval and collateral monitoring process are based on loan-to-value limits. For mortgages (residential or commercial), recovery rates are differentiated by type of property. EAD is either derived from balance sheet values or by using models. EAD for a non-defaulted facility is an estimate of the gross exposure upon default of the obligor. Estimates are derived based on a CCF approach using default-weighted averages of historical realized conversion factors on defaulted loans by facility type. Estimates are calibrated to capture negative operating environment effects.

We have received approval from FINMA to use the internal model method for measuring counterparty risk for the majority of our derivative and secured financing exposures.

Risk weights are calculated using either the PD/LGD approach or the supervisory risk weights (SRW) approach for certain types of specialized lending.

Standardized approach

Under the standardized approach, risk weights are determined either according to credit ratings provided by recognized external credit assessment institutions or, for unrated exposures, by using the applicable regulatory risk weights. Less than 10% of our credit risk by asset class is determined using this approach.

Securitization risk in the banking book
For securitizations, the regulatory capital requirements are calculated using IRB approaches (the RBA and the SFA) and the standardized approach in accordance with the prescribed hierarchy of approaches in the Basel regulations. External ratings used in regulatory capital calculations for securitization risk exposures in the banking book are obtained from Fitch, Moody's, Standard & Poor's or Dominion Bond Rating Service.
> Refer to "Securitization risk in the banking book" in section "Credit risk" on pages 30 to 34 for further information on the IRB approaches and the standardized approach.

Equity type securities in the banking book
For equity type securities in the banking book except for significant investments in BFI entities, risk weights are determined using the IRB Simple approach based on the equity sub-asset type (listed equity and all other equity positions). Significant investments in BFI entities (i.e. investments in the capital of BFI entities that are outside the scope of regulatory consolidation, where the Group owns more than 10% of the issued common share capital of the entity) are subject to a threshold treatment as outlined below in the section "Exposures below 15% threshold". Where equity type securities represent non-significant investments in BFI entities (i.e., investments in the capital of BFI entities that are outside the scope of regulatory consolidation, where the Group does not own more than 10% of the issued common share capital of the entity),

a threshold approach is applied that compares the total amount of non-significant investments in BFI entities (considering both trading and banking book positions) to a 10% regulatory defined eligible capital amount. The amount above the threshold is phased-in as a capital deduction and the amount below the threshold continues to be risk-weighted according to the relevant trading book and banking book approaches.
> Refer to “Equity type securities in the banking book” in section “Credit risk” on pages 34 to 35 for further information.

Credit valuation adjustment risk
Basel III introduced a new regulatory capital charge, Credit Valuation Adjustment (CVA), designed to capture the risk associated with potential mark-to-market losses associated with the deterioration in the creditworthiness of a counterparty.
Under Basel III, banks are required to calculate capital charges for CVA under either the Standardized CVA approach or the Advanced CVA approach (ACVA). The CVA rules stipulate that where banks have permission to use market risk Value-at-Risk (VaR) and counterparty risk Internal Models Method (IMM), they are to use the ACVA unless their regulator decides otherwise. FINMA has confirmed that the ACVA should be used for both IMM and non-IMM exposures.
The regulatory CVA capital charge applies to all counterparty exposures arising from over-the-counter (OTC) derivatives, excluding those with central counterparties (CCP). Exposures arising from Securities Financing Transactions (SFT) are not required to be included in the CVA charge unless they could give rise to a material loss. FINMA has confirmed that Credit Suisse can exclude these exposures from the regulatory capital charge.

Central counterparties risk
The Basel III framework provides specific requirements for exposures the Group has to CCP arising from OTC derivatives, exchange-traded derivative transactions and SFT. Exposures to CCPs which are considered to be qualifying CCPs by the regulator will receive a preferential capital treatment compared to exposures to non-qualifying CCPs.
The Group can incur exposures to CCPs as either a clearing member (house or client trades), or as a client of another clearing member. Where the Group acts as a clearing member of a CCP on behalf of its client (client trades), it incurs an exposure to its client as well as an exposure to the CCP. Since the exposure to the client is to be treated as a bilateral trade, the risk-weighted assets from these exposures are represented under “credit risk by asset class”. Where the Group acts as a client of another clearing member the risk-weighted assets from these exposures are also represented under “credit risk by asset class”.
The exposures to CCP (represented as “Central counterparties (CCP) risks”) consist of trade exposure, default fund exposure and contingent exposure based on trade replacement due to a clearing member default. While the trades exposure includes the current and potential future exposure of the clearing member (or a client) to a CCP arising from the underlying transaction and the initial margin posted to the CCP, the default fund exposure is arising from default fund contributions to the CCP.

Settlement risk
Regulatory fixed risk weights are applied to settlement exposures. Settlement exposures arise from unsettled or failed transactions where cash or securities are delivered without a corresponding receipt.

Exposures below 15% threshold
Significant investments in BFI entities, mortgage servicing rights and deferred tax assets that arise from temporary differences are subject to a threshold approach, whereby individual amounts are compared to a 10% threshold of regulatory defined eligible capital. In addition amounts below the individual 10% thresholds are aggregated and compared to a 15% threshold of regulatory defined eligible capital. The amount that is above the 10% threshold is phased-in as a CET1 deduction. The amount above the 15% threshold is phased-in as a CET1 deduction and the amount below is risk weighted at 250%.

Other items
Other items include risk-weighted assets related to immaterial portfolios for which we have received approval from FINMA to apply a simplified Institute Specific Direct Risk Weight as well as risk-weighted assets related to items that were risk-weighted under Basel II.5 and are phased in as capital deductions under Basel III.

Market risk
We use the advanced approach for calculating the capital requirements for market risk for the majority of our exposures. The following advanced approaches are used: the internal models approach (IMA) and the standardized measurement method (SMM).
We use the standardized approach to determine our market risk for a small population of positions which represent an immaterial proportion of our overall market risk exposure.
> Refer to section “Market risk” on pages 36 to 42 for further information on market risk.

Internal models approach
The market risk IMA framework includes regulatory Value-at-Risk (VaR), stressed VaR, risks not in VaR (RNIV), an Incremental Risk Charge (IRC), and Comprehensive Risk Measure.

Regulatory VaR, stressed VaR and risks not in VaR
We have received approval from FINMA, as well as from certain other regulators of our subsidiaries, to use our VaR model to calculate trading book market risk capital requirements under the IMA. We apply the IMA to the majority of the positions in our trading book. We continue to receive regulatory approval for ongoing enhancements to the VaR methodology, and the VaR model

is subject to regular reviews by regulators. Stressed VaR replicates a VaR calculation on the Group's current portfolio taking into account a one-year observation period relating to significant financial stress and helps to reduce the pro-cyclicality of the minimum capital requirements for market risk. The VaR model does not cover all identified market risk types and as such we have also adopted a RNIV category which was approved by FINMA in 2012.

Incremental Risk Charge

The IRC capitalizes issuer default and migration risk in the trading book, such as bonds or credit default swaps (CDS), but excludes securitizations and correlation trading. We have received approval from FINMA, as well as from certain other regulators of our subsidiaries, to use our IRC model. We continue to receive regulatory approval for ongoing enhancements to the IRC methodology, and the IRC model is subject to regular reviews by regulators.

The IRC model assesses risk at 99.9% confidence level over a one year time horizon assuming that positions are sold and replaced one or more times, depending on their liquidity which is modeled by the liquidity horizon. The portfolio loss distribution is estimated using an internally developed credit portfolio model designed to the regulatory requirements.

The liquidity horizon represents time required to sell the positions or hedge all material risk covered by the IRC model in a stressed market. Liquidity horizons are modelled according to the requirements imposed by Basel III guidelines.

The IRC model and liquidity horizon methodology have been validated by an independent team in accordance with the firms validation umbrella policy and Risk Model Validation Sub-Policy for IRC.

Comprehensive Risk Measure

Comprehensive Risk Measure is a market risk capital model designed to capture all the price risks of credit correlation positions in the trading book. Scope is developed markets corporate correlation trades, i.e. tranches and their associated hedges and Nth-to-Default baskets. Scope excludes corporate re-securitization positions, emerging market corporate securitization and associated hedges. The model is based on a Full Revaluation Monte Carlo Simulation, whereby all the relevant risk factors are jointly simulated in one year time horizon. The trading portfolio is then fully re-priced under each scenario. The model then calculates the loss at 99.9% percentile. Simulated risk factors are credit spreads, credit migration, credit default, recovery rate, credit correlation, basis between credit indices and their CDS constituents. The Comprehensive Risk Measure model has been internally approved by the relevant risk model approval committee and achieved regulatory approval by FINMA. The capital requirements calculated by the Comprehensive Risk Measure model is currently subject to a floor defined as a percentage of the standardized rules for corporate securitized products. The Comprehensive Risk Measure model has been validated by an independent team in accordance with the firms validation umbrella policy and the Risk Model Validation Sub-Policy for IRC and Comprehensive Risk Measure.

Standardized measurement method

We use the SMM which is based on the ratings-based approach (RBA) and the supervisory formula approach (SFA) for securitization purposes (see also Securitization risk in the banking book) and other supervisory approaches for trading book securitization positions covering the approach for nth-to-default products and portfolios covered by the weighted average risk weight approach.

> Refer to "Securitization risk in the trading book" in section "Market risk" on pages 37 to 42 for further information on the standardized measurement method and other supervisory approaches.

Operational risk

We have used an internal model to calculate the regulatory capital requirement for operational risk under the Advanced Measurement Approach (AMA) since 2008. In 2012, following discussions with FINMA, we initiated a project to enhance our internal model to reflect recent developments regarding operational risk measurement methodology and associated regulatory guidance. The revised model has been approved by FINMA for calculating the regulatory capital requirement for operational risk with effect from January 1, 2014. We view the revised model as a significant enhancement to our capability to measure and understand the operational risk profile of the Group that is

also more conservative compared with the previous approach.

The model is based on a loss distribution approach that uses historical data on internal and relevant external losses of peers to generate frequency and severity distributions for a range of potential operational risk loss scenarios, such as an unauthorized trading incident or a material business disruption. Business experts and senior management review, and may adjust, the parameters of these scenarios to take account of business environment and internal control factors, such as risk and control self-assessment results and risk and control indicators, to provide a forward-looking assessment of each scenario. The AMA capital calculation approved by FINMA includes all litigation-related provisions and also an add-on component relating to the aggregate range of reasonably possible litigation losses that are disclosed in our financial statements but are not covered by existing provisions. In the fourth quarter of 2013, this new approach to litigation-related provisions and reasonably possible litigation losses has been applied to the previous AMA model used to calculate regulatory capital requirements as of December 31, 2013. Insurance mitigation is included in the regulatory capital requirement for operational risk where appropriate, by considering the level of insurance coverage for each scenario and incorporating haircuts as appropriate. The internal model then uses the adjusted parameters to generate an overall loss distribution for the Group over a one-year time horizon. The AMA capital requirement represents the 99.9th percentile of this overall loss distribution.

In 2Q14, a slight increase in capital required for operational risk primarily reflected the impact of incorporating into the AMA model the Federal Housing Finance Agency settlement in March 2014 and the settlement of all outstanding US cross-border matters in May 2014. The impact from these settlements was partially

offset by the agreement with FINMA to remove the limitation it had set on the capital benefit for insurance-based risk transfer and a decrease in the add-on component of the capital related to the aggregate range of reasonably possible litigation losses due to the reduction in the maximum value of this range.

Non-counterparty-related risk
Regulatory fixed risk weights are applied to non-counterparty-related exposures. Non-counterparty-related exposures arise from holdings of premises and equipment, real estate and investments in real estate entities.

BIS capital metrics
Regulatory capital and ratios
Regulatory capital is calculated and managed according to Basel regulations and used to determine BIS ratios. BIS ratios compare eligible CET1 capital, tier 1 capital and total capital with BIS risk-weighted assets.
> Refer to “Risk-weighted assets” (pages 53 to 54) in II – Treasury, risk, balance sheet and off-balance sheet – Capital management – BIS capital metrics in the Credit Suisse 2Q14 Financial Report for information on risk-weighted assets movements in 6M14.

Summary of BIS risk-weighted assets and capital requirements - Basel III

end of CHF million	Risk-weighted assets	6M14 Capital require-ment[1]	Risk-weighted assets	2013 Capital require-ment[1]
Credit risk				
Advanced-IRB	125,802	10,064	116,772	9,342
Standardized	3,659	293	3,640	291
Credit risk by asset class	129,461	10,357	120,412	9,633
Advanced-IRB	11,444	916	14,935	1,195
Standardized	0	0	0	0
Securitization risk in the banking book	11,444	916	14,935	1,195
Advanced – IRB Simple	13,019	1,042	9,833	787
Equity type securities in the banking book	13,019	1,042	9,833	787
Advanced CVA	13,867	1,109	10,650	852
Standardized CVA	44	4	56	4
Credit valuation adjustment risk	13,911	1,113	10,706	856
Standardized - Fixed risk weights	11,589	927	12,500	1,000
Exposures below 15% threshold [2]	11,589	927	12,500	1,000
Advanced	3,194	256	1,906	152
Central counterparties (CCP) risk	3,194	256	1,906	152
Standardized - Fixed risk weights	1,026	82	512	41
Settlement risk	1,026	82	512	41
Advanced	390	31	281	22
Standardized	3,933	315	4,546	364
Other items [3]	4,323	346	4,827	386
Total credit risk	**187,967**	**15,037**	**175,631**	**14,050**
Market risk				
Advanced	32,132	2,571	38,719	3,098
Standardized	572	46	414	33
Total market risk	**32,704**	**2,616**	**39,133**	**3,131**
Operational risk				
Advanced measurement	59,050	4,724	53,075	4,246
Total operational risk	**59,050**	**4,724**	**53,075**	**4,246**
Non-counterparty-related risk				
Standardized - Fixed risk weights	5,700	456	6,007	481
Total non-counterparty-related risk	**5,700**	**456**	**6,007**	**481**
Total BIS risk-weighted assets and capital requirements	**285,421**	**22,834**	**273,846**	**21,908**
of which advanced	258,898	20,712	246,171	19,694
of which standardized	26,523	2,122	27,675	2,214

1
Calculated as 8% of risk-weighted assets.
2
Exposures below 15% threshold are risk-weighted at 250%. Refer to table "Additional information" in section "Reconciliation requirements" for further information.
3

Includes risk-weighted assets of CHF 3,482 million and CHF 4,158 million as of the end of 6M14 and 2013, respectively, related to items that were risk-weighted under Basel II.5 and are phased in as capital deductions under Basel III. Refer to table "Additional information" in section "Reconciliation requirements" for further information.

BIS eligible capital - Basel III

	Group		Bank	
end of	6M14	2013	6M14	2013
Eligible capital (CHF million)				
CET1 capital	39,453	42,989	34,856	38,028
Total tier 1 capital	45,537	46,061	40,789	41,105
Total eligible capital	**55,637**	**56,288**	**50,333**	**52,066**

The following table presents the Basel III phase-in requirements for each of the relevant capital components and discloses the Group's and the Bank's current capital metrics against those requirements.

BIS capital ratios - Basel III - Group

			6M14			2013
end of	Ratio	Requirement[2]	Excess	Ratio	Requirement[2]	Excess
Capital ratios (%)						
Total CET1 [1]	13.8	4.0	9.8	15.7	3.5	12.2
Tier 1	16.0	5.5	10.5	16.8	4.5	12.3
Total capital	19.5	8.0	11.5	20.6	8.0	12.6

1 Capital conservation buffer and G-SIB buffer requirement will be phased in from January 1, 2016 through January 1, 2019.

2 Excludes countercyclical buffer that was required as of September 30, 2013. As of the end of 6M14 and 2013, our countercyclical buffer was CHF 299 million and CHF 144 million, which is equivalent to an additional requirement of 0.10% and 0.05% of CET1 capital, respectively.

BIS capital ratios - Basel III - Bank

			6M14			2013
end of	Ratio	Requirement[2]	Excess	Ratio	Requirement[2]	Excess
Capital ratios (%)						
Total CET1 [1]	12.6	4.0	8.6	14.4	3.5	10.9
Tier 1	14.8	5.5	9.3	15.6	4.5	11.1
Total capital	18.2	8.0	10.2	19.7	8.0	11.7

1 Capital conservation buffer and G-SIB buffer requirement will be phased in from January 1, 2016 through January 1, 2019.

2 Excludes countercyclical buffer that was required as of September 30, 2013. As of the end of 6M14 and 2013, our countercyclical buffer was CHF 248 million and CHF 121 million, which is equivalent to an additional requirement of 0.09% and 0.05% of CET1 capital, respectively.

Swiss capital metrics
Swiss regulatory capital and ratios
> Refer to “Swiss Requirements” for further information on Swiss regulatory requirements.

As of the end of 6M14, our Swiss CET1 capital and Swiss total capital ratios were 13.7% and 19.4%, respectively, compared to the Swiss capital ratio phase-in requirements of 6.75% and 10.18%, respectively.

Swiss risk-weighted assets - Group

			6M14			2013
end of	Ad-vanced	Stan-dardized	Total	Ad-vanced	Stan-dardized	Total
Risk-weighted assets (CHF million)						
Total BIS risk-weighted assets	**258,898**	**26,523**	**285,421**	**246,171**	**27,675**	**273,846**
Impact of differences in thresholds [1]	1	(39)	(38)	(17)	415	398
Other multipliers [2]	825	0	825	617	–	617
Total Swiss risk-weighted assets	**259,724**	**26,484**	**286,208**	**246,771**	**28,090**	**274,861**

1
Represents the impact on risk-weighted assets of differences in regulatory thresholds resulting from Swiss regulatory CET1 adjustments.
2
Primarily includes differences in credit risk multiplier.

Swiss statistics - Basel III

		Group		Bank
end of	6M14	2013	6M14	2013
Capital development (CHF million)				
CET1 capital	39,453	42,989	34,856	38,028
Swiss regulatory adjustments [1]	(161)	1,658	(96)	1,711
Swiss CET1 capital [2]	**39,292**	**44,647**	**34,760**	**39,739**
High-trigger capital instruments	8,259[3]	7,743	8,256[3]	7,743
Low-trigger capital instruments	8,432[4]	6,005	7,653[5]	5,164
Additional tier 1 and tier 2 instruments subject to phase-out [6]	6,082	–	5,507	–
Deductions from additional tier 1 and tier 2 capital [6]	(6,589)	–	(5,940)	–
Swiss total eligible capital [2]	**55,476**	**58,395**	**50,236**	**52,646**
Capital ratios (%)				
Swiss CET1 ratio	13.7	16.2	12.5	15.0
Swiss total capital ratio	19.4	21.2	18.1	19.8

1
Includes adjustments for certain unrealized gains outside the trading book and, in 2013, also included tier 1 participation securities, which were redeemed in 1Q14.
2
Previously referred to as Swiss Core Capital and Swiss Total Capital, respectively.

3
Consists of CHF 5.8 billion additional tier 1 instruments and CHF 2.5 billion tier 2 instruments.
4
Consists of CHF 4.5 billion additional tier 1 instruments and CHF 3.9 billion tier 2 instruments.
5
Consists of CHF 3.7 billion additional tier 1 instruments and CHF 3.9 billion tier 2 instruments.
6
Reflects the FINMA Decree, which was effective in 1Q14.

The following table presents the Swiss Requirements for each of the relevant capital components and discloses our current capital metrics against those requirements.

Swiss capital requirements and coverage

	Group					Bar				
	Capital requirements					Capital requirements				
end of	Minimum component	Buffer component	Progressive component	Excess	6M14	Minimum component	Buffer component	Progressive component	Excess	6M1
Risk-weighted assets (CHF billion)										
Swiss risk-weighted assets	–	–	–	–	286.2	–	–	–	–	277.
2014 Swiss capital requirements [1]										
Minimum Swiss total capital ratio	4.0%	4.5%[2]	1.68%		– 10.18%	4.0%	4.5%	1.68%		– 10.18%
Minimum Swiss total eligible capital (CHF billion)	11.4	12.9	4.8	–	29.1	11.1	12.5	4.6	–	28.
Swiss capital coverage (CHF billion)										
Swiss CET1 Capital	11.4	7.9	–	20.0	39.3	11.1	7.6	–	16.1	34.
High-trigger capital instruments	–	5.0	–	3.3	8.3	–	4.9	–	3.4	8.
Low-trigger capital instruments	–	–	4.8	3.6	8.4	–	–	4.6	3.0	7.
Additional tier 1 and tier 2 instruments subject to phase-out	–	–	–	6.1	6.1	–	–	–	5.5	5.
Deductions from additional tier 1 and tier 2 capital	–	–	–	(6.6)	(6.6)	–	–	–	(5.9)	(5.9
Swiss total eligible capital	**11.4**	**12.9**	**4.8**	**26.4**	**55.5**	**11.1**	**12.5**	**4.6**	**22.0**	**50.**
Capital ratios (%)										
Swiss total capital ratio	**4.0%**	**4.5%**	**1.68%**	**9.2%**	**19.4%**	**4.0%**	**4.5%**	**1.68%**	**7.9%**	**18.1%**

Rounding differences may occur.

1 The Swiss capital requirements are based on a percentage of risk-weighted assets.

2

Excludes countercyclical buffer that was required as of September 30, 2013.

Credit risk

General
Credit risk consists of the following categories:

– Credit risk by asset class
– Securitization risk in the banking book
– Equity type securities in the banking book
– CVA risk
– Exposures below 15% threshold
– CCP risk
– Settlement risk
– Other items

> Refer to “Credit risk” (pages 128 to 139) in III – Treasury, Risk, Balance sheet and Off-balance sheet – Risk management in the Credit Suisse Annual Report 2013 for information on our credit risk management approach, ratings and risk mitigation and impaired exposures and allowances.

Credit risk by asset class
General
For regulatory purposes, we categorize our exposures into asset classes with different underlying risk characteristics including type of counterparty, size of exposure and type of collateral. The asset class categorization is driven by regulatory rules from the Basel framework.
The following table presents the description of credit risk by asset class under the Basel framework (grouped as either institutional or retail) and the related regulatory approaches used.

Credit risk by asset class - Overview

Asset class	Description	Approaches
Institutional credit risk (mostly in the Investment Banking division)		
Sovereigns	Exposures to central governments, central banks, BIS, the International Monetary Fund, the European Central Bank and eligible Multilateral Development Banks (MDB).	PD/LGD for most portfolios Standardized for banking book treasury liquidity positions and other assets
Other institutions	Exposures to public bodies with the right to raise taxes or	PD/LGD for most portfolios Standardized for banking book

		whose liabilities are guaranteed by a public sector entity.	treasury liquidity positions and other assets
Banks		Exposures to banks, securities firms, stock exchanges and those MDB that do not qualify for sovereign treatment.	PD/LGD for most portfolios SRW for unsettled trades Standardized for banking book treasury liquidity positions and other assets
Corporates		Exposures to corporations (except small businesses) and public sector entities with no right to raise taxes and whose liabilities are not guaranteed by a public entity. The Corporate asset class also includes specialized lending, in which the lender looks primarily to a single source of revenues to cover the repayment obligations and where only the financed asset serves as security for the exposure (e.g., income producing real estate or commodities finance).	PD/LGD for most portfolios SRW for Investment Banking specialized lending exposures Standardized for banking book treasury liquidity positions and other assets

Retail credit risk (mostly in the Private Banking & Wealth Management division)		
Residential mortgages	Includes exposures secured by residential real estate collateral occupied or let by the borrower.	PD/LGD
Qualifying revolving retail	Includes credit card receivables and overdrafts.	PD/LGD
Other retail	Includes loans collateralized by securities, consumer loans, leasing and small business exposures.	PD/LGD Standardized for other assets
Other credit risk		
Other exposures	Includes exposures with insufficient information to treat under the A-IRB approach or to allocate under the Standardized approach into any other asset class.	Standardized

Gross credit exposures, risk-weighted assets and capital requirement

The following table presents the derivation of risk-weighted assets from the gross credit exposures (pre- and post-substitution), broken down by regulatory approach and by the credit asset class under the Basel framework.

Gross credit exposures and risk-weighted assets by regulatory approach

				6M14				2013
		Exposure	Risk-weighted assets	Capital requirement[1]		Exposure	Risk-weighted assets	Capital requirement[1]
end of	Pre-substitution[2]	Post-substitution			Pre-substitution[2]	Post-substitution		
A-IRB (CHF million)								
PD/LGD								
Sovereigns	67,405	63,068	4,001	320	71,220	68,539	3,567	285
Other institutions	2,745	2,694	486	39	1,875	1,866	388	31
Banks	43,922	52,190	13,180	1,054	32,676	38,398	10,510	841
Corporates	190,457	186,577	83,856	6,708	174,997	171,965	79,912	6,393
Total institutional	**304,529**	**304,529**	**101,523**	**8,122**	**280,768**	**280,768**	**94,377**	**7,550**
Residential mortgage	100,108	100,108	11,271	902	98,800	98,800	10,525	842
Qualifying revolving retail	698	698	251	20	699	699	246	20
Other retail	69,393	69,393	11,993	959	63,056	63,056	11,100	888
Total retail	**170,199**	**170,199**	**23,515**	**1,881**	**162,555**	**162,555**	**21,871**	**1,750**
Total PD/LGD	**474,728**	**474,728**	**125,038**	**10,003**	**443,323**	**443,323**	**116,248**	**9,300**
Supervisory risk weights (SRW)								
Banks	30	30	6	0	27	27	6	1
Corporates	1,052	1,052	758	61	998	998	518	41
Total institutional	**1,082**	**1,082**	**764**	**61**	**1,025**	**1,025**	**524**	**42**
Total SRW	**1,082**	**1,082**	**764**	**61**	**1,025**	**1,025**	**524**	**42**
Total A-IRB	**475,810**	**475,810**	**125,802**	**10,064**	**444,348**	**444,348**	**116,772**	**9,342**
Standardized (CHF million)								
Sovereigns	6,261	6,261	428	34	5,497	5,497	79	6
Other institutions	226	226	51	4	245	245	55	5
Banks	568	568	161	13	727	727	301	24
Corporates	466	466	129	10	863	863	501	40
Total institutional	**7,521**	**7,521**	**769**	**62**	**7,332**	**7,332**	**936**	**75**
Other retail	83	83	34	3	47	47	21	2
Total retail	**83**	**83**	**34**	**3**	**47**	**47**	**21**	**2**
Other exposures	6,679	6,679	2,856	228	6,107	6,107	2,683	214
Total standardized	**14,283**	**14,283**	**3,659**	**293**	**13,486**	**13,486**	**3,640**	**291**
Total	**490,093**	**490,093**	**129,461**	**10,357**	**457,834**	**457,834**	**120,412**	**9,633**
of which counterparty credit risk[3]	99,848	99,848	30,596	2,448	75,629	75,629	25,282	2,023

1 Calculated as 8% of risk-weighted assets.

2
Gross credit exposures are shown pre- and post-substitution as, in certain circumstances, credit risk mitigation is reflected by shifting the counterparty exposure from the underlying obligor to the protection provider.
3
Includes derivatives and securities financing transactions.

Gross credit exposures and risk-weighted assets

	6M14			2013		
	End of	Monthly average	Risk-weighted assets	End of	Monthly average	Risk-weighted assets
Gross credit exposures (CHF million)						
Loans, deposits with banks and other assets [1]	331,361	329,000	74,457	323,102	319,025	70,693
Guarantees and commitments	58,884	59,821	24,408	59,103	63,849	24,437
Securities financing transactions	37,605	34,363	7,583	30,521	36,949	7,204
Derivatives	62,243	62,056	23,013	45,108	53,307	18,078
Total	**490,093**	**485,240**	**129,461**	**457,834**	**473,130**	**120,412**

1 Includes interest bearing deposits with banks, banking book loans, available-for-sale debt securities and other receivables.

Geographic distribution of gross credit exposures

end of	Switzerland	EMEA	Americas	Asia Pacific	Total
6M14 (CHF million)					
Loans, deposits with banks and other assets [1]	156,135	84,351	63,308	27,567	331,361
Guarantees and commitments	11,816	15,017	30,145	1,906	58,884
Securities financing transactions	2,440	11,975	19,292	3,898	37,605
Derivatives	5,204	32,093	19,528	5,418	62,243
Total	**175,595**	**143,436**	**132,273**	**38,789**	**490,093**
2013 (CHF million)					
Loans, deposits with banks and other assets [1]	155,868	77,044	63,758	26,432	323,102
Guarantees and commitments	13,304	16,786	27,089	1,924	59,103
Securities financing transactions	2,349	10,234	15,824	2,114	30,521
Derivatives	3,885	24,311	12,537	4,375	45,108
Total	**175,406**	**128,375**	**119,208**	**34,845**	**457,834**

The geographic distribution is based on the country of incorporation or the nationality of the counterparty, shown pre-substitution.

1 Includes interest bearing deposits with banks, banking book loans, available-for-sale debt securities and other receivables.

Industry distribution of gross credit exposures

end of	Financial institutions	Commercial	Consumer	Public authorities	Total
6M14 (CHF million)					
Loans, deposits with banks and other assets [1]	15,322	128,329	126,292	61,418	331,361
Guarantees and commitments	3,024	51,629	2,074	2,157	58,884

Securities financing transactions	10,088	23,535	8	3,974	37,605
Derivatives	15,520	34,154	1,508	11,061	62,243
Total	**43,954**	**237,647**	**129,882**	**78,610**	**490,093**
2013 (CHF million)					
Loans, deposits with banks and other assets [1]	11,872	123,330	120,955	66,945	323,102
Guarantees and commitments	3,387	51,501	2,538	1,677	59,103
Securities financing transactions	6,738	19,650	27	4,106	30,521
Derivatives	10,726	23,963	1,980	8,439	45,108
Total	**32,723**	**218,444**	**125,500**	**81,167**	**457,834**

Exposures are shown pre-substitution.

1 Includes interest bearing deposits with banks, banking book loans, available-for-sale debt securities and other receivables.

Remaining contractual maturity of gross credit exposures

end of	within 1 year[1]	within 1-5 years	Thereafter	Total
6M14 (CHF million)				
Loans, deposits with banks and other assets [2]	187,220	96,977	47,164	331,361
Guarantees and commitments	25,800	31,482	1,602	58,884
Securities financing transactions	36,987	520	98	37,605
Derivatives	18,562	19,999	23,682	62,243
Total	**268,569**	**148,978**	**72,546**	**490,093**
2013 (CHF million)				
Loans, deposits with banks and other assets [2]	186,323	90,024	46,755	323,102
Guarantees and commitments	23,060	34,546	1,497	59,103
Securities financing transactions	30,170	336	15	30,521
Derivatives	15,239	17,003	12,866	45,108
Total	**254,792**	**141,909**	**61,133**	**457,834**

1
Includes positions without agreed residual contractual maturity.
2
Includes interest bearing deposits with banks, banking book loans, available-for-sale debt securities and other receivables.

Portfolios subject to PD/LGD approach

Rating models

The majority of the credit rating models used in Credit Suisse are developed internally by Credit Analytics, a specialized unit in Credit Risk Management (CRM). These models are independently validated by Model Risk Management prior to use in the Basel III regulatory capital calculation, and thereafter on a regular basis. Credit Suisse also use models purchased from recognized data and model providers (e.g. credit rating agencies). These models are owned by Credit Analytics and are validated internally and follow the same governance process as models developed internally.

All new or material changes to rating models are subject to a robust governance process. Post development and validation of a rating model or model change, the model is taken through a number of committees where model developers, validators and users of the models discuss the technical and regulatory aspects of the model. The relevant committees opine on the information provided and decide to either approve or reject the model or model change. The ultimate decision making committee is the Risk Processes and Standards Committee (RPSC). The responsible Executive Board Member for the RPSC is the Chief Risk Officer. The RPSC sub-group responsible for rating models is the Credit Model Steering Committee (CMSC). RPSC or CMSC also review and monitor the continued use of existing models on an annual basis.

Model development

The techniques to develop models are carefully selected by Credit Analytics to meet industry standards in the banking industry as well as regulatory requirements. The models are developed to exhibit “through-the-cycle” characteristics, reflecting a probability of default in a 12 month period across the credit cycle.

All models have clearly defined model owners who have primary responsibility for development, enhancement, review, maintenance and documentation. The models have to pass statistical performance tests, where feasible, followed by usability tests by designated CRM experts to proceed to formal approval and implementation. The development process of a new model is thoroughly documented and foresees a separate schedule for model updates.

The level of calibration of the models is based on a range of inputs, including internal and external benchmarks where available. Additionally, the calibration process ensures that the estimated calibration level accounts for variations of default rates through the economic cycle and that the underlying data contains a representative mix of economic states. Conservatism is incorporated in the model development process to compensate for any known or suspected limitations and uncertainties.

Model validation

Model validation within Credit Suisse is performed by an independent function subject to clear and objective internal standards as outlined in the Validation Policy. This ensures a consistent and meaningful approach for the validation of models across the bank and over time, allowing comparison of model performance over the years. All models whose outputs fall into the scope of the Basel internal model framework are in scope of the model validation governance framework. Externally developed models are subject to the same governance and validation standards as internal models.

The validation process requires each in scope model to be validated and approved before go-live; the same process is followed for model changes to an existing model. Existing models are part of a regular review process which requires each model to be periodically validated and the performance to be monitored annually. Each validation review is a comprehensive quantitative and qualitative assessment with the goal:

– to confirm that the model remains conceptually sound and the model design is suitable for its intended purpose;
– to verify that the assumptions are still valid and weaknesses and limitations are known and mitigated;
– to determine that the model outputs are accurate compared to realized outcome;

– to establish whether the model is accepted by the users and used as intended with appropriate data governance;
– to check whether a model is implemented correctly;
– to ensure that the model is fully transparent and sufficiently documented.

To meet these goals, models are validated against a series of quantitative and qualitative criteria which have been approved by the model governing committees. Quantitative analyses include a review of model performance (comparison of model output against realized outcome), calibration accuracy against the longest time series available, assessment of a model's ability to rank order risk and performance against available benchmarks. Qualitative assessment includes a review of the appropriateness of the key model assumptions, the identification of the model limitations and their mitigation, and model use. The modeling approach is re-assessed in light of developments in the academic literature and industry practice.
Results and conclusions are presented to senior risk management; shortcomings and required improvements identified by Validation must be remediated within an agreed deadline. Validation is independent and has the final say on the content of each validation report.

Stress testing of parameters
The potential biases in PD estimates in unusual market conditions are accounted for by the use of long run average estimates. Credit Suisse additionally uses stress-testing when back-testing PD models. When predefined thresholds are breached during back-testing, a review of the calibration level is undertaken. For LGD/CCF calibration stress testing is applied in defining Downturn LGD/CCF values, reflecting potentially increased losses during stressed periods.

Descriptions of the rating processes
All counterparties that Credit Suisse is exposed to are assigned an internal credit rating. The rating is assigned at the time of initial credit approval and subsequently reviewed and updated on an ongoing basis. Rating determination is based on relevant quantitative data (such as financial statements and financial projections) and qualitative factors relating to the counterparty which is used by CRM by employing a quantitative model which incorporates expert judgement through a well governed model override process in the assignment of a credit rating or PD, which measures the counterparty's risk of default over a one-year period.

Counterparty and transaction rating process – Corporates (excluding corporates managed on the Swiss platform), banks and sovereigns (primarily in the Investment Banking division)
Where rating models are used, the models are an integral part of the rating process, and the outputs from the models are complemented with other relevant information by credit officers via a robust model-override framework where information not captured by the models is taken into account by experienced credit officers. In addition to the information captured by the rating models, credit officers make use of peer analysis, industry comparisons, external ratings and research and the judgment of credit experts to complement the model ratings. This analysis emphasizes a forward looking approach, concentrating on economic trends and financial fundamentals. Where rating models are not used the assignment of credit ratings is based on a well-established expert judgment based process which captures key factors specific to the type of counterparty.
For structured and asset finance deals, the approach is more quantitative. The focus is on the performance of the underlying assets, which represent the collateral of the deal. The ultimate rating is dependent upon the expected performance of the underlying assets and the level of credit enhancement of the specific transaction. Additionally, a review of the originator and/or servicer is performed. External ratings and research (rating agency and/or fixed income and equity), where available, are incorporated into the rating justification, as is any available market information (e.g., bond spreads, equity performance).
Transaction ratings are based on the analysis and evaluation of both quantitative and qualitative factors. The specific factors analyzed include seniority, industry and collateral. The analysis emphasizes a forward looking approach.

Counterparty and transaction rating process – Corporates managed on the Swiss platform, mortgages and other retail (primarily in the Private Banking & Wealth Management division)

For corporates managed on the Swiss platform and mortgage lending, the statistically derived rating models, which are based on internally compiled data comprising both quantitative factors (primarily loan-to-value ratio and the borrower's income level for mortgage lending and balance sheet information for corporates) and qualitative factors (e.g., credit histories from credit reporting bureaus). Collateral loans, which form the largest part of "other retail", are treated according to Basel III rules with pool PD and pool LGD based on historical loss experience. Most of the collateral loans are loans collateralized by securities.

The internal rating grades are mapped to the Credit Suisse Internal Masterscale. The PDs assigned to each rating grade are reflected in the following table.

Credit Suisse counterparty ratings

Ratings	PD bands (%)	Definition	S&P	Fitch	Moody's	Details
AAA	0.000 - 0.021	Substantially risk free	AAA	AAA	Aaa	Extremely low risk, very high long-term stability, still solvent under extreme conditions
AA+	0.021 - 0.027	Minimal risk	AA+	AA+	Aa1	Very low risk, long-term stability, repayment
AA	0.027 - 0.034		AA	AA	Aa2	sources sufficient under lasting adverse
AA-	0.034 - 0.044		AA-	AA-	Aa3	conditions, extremely high medium-term stability
A+	0.044 - 0.056	Modest risk	A+	A+	A1	Low risk, short- and mid-term stability,
A	0.056 - 0.068		A	A	A2	small adverse
A-	0.068 - 0.097		A-	A-	A3	developments can be absorbed long term, short- and mid-term solvency preserved in the event of serious difficulties
BBB+	0.097 - 0.167	Average risk	BBB+	BBB+	Baa1	Medium to low risk, high short-term
BBB	0.167 - 0.285		BBB	BBB	Baa2	stability, adequate
BBB-	0.285 - 0.487		BBB-	BBB-	Baa3	substance for medium-term survival, very stable short term
BB+	0.487 - 0.839	Acceptable risk	BB+	BB+	Ba1	Medium risk, only short-term stability, only
BB	0.839 - 1.442		BB	BB	Ba2	capable of
BB-	1.442 - 2.478		BB-	BB-	Ba3	absorbing minor adverse developments in the medium term, stable in the short term, no increased credit risks expected within the year
B+	2.478 - 4.259	High risk	B+	B+	B1	Increasing risk, limited capability to absorb
B	4.259 - 7.311		B	B	B2	further unexpected negative developments
B-	7.311 - 12.550		B-	B-	B3	
CCC+	12.550 -	Very high	CCC+	CCC+	Caa1	High risk, very limited capability to absorb
CCC	21.543	risk	CCC	CCC	Caa2	further unexpected negative developments
CCC-	21.543 -		CCC-	CCC-	Caa3	
CC	100.00		CC	CC	Ca	
	21.543 - 100.00					
	21.543 -					

	100.00					
C D1 D2	100 Risk of default has materialized	Imminent or actual loss	C D	C D	C	Substantial credit risk has materialized, i.e. counterparty is distressed and/or non-performing. Adequate specific provisions must be made as further adverse developments will result directly in credit losses.

Transactions rated C are potential problem loans; those rated D1 are non-performing assets and those rated D2 are non-interest earning.

Use of internal ratings

Internal ratings play an essential role in the decision-making and the credit approval processes. The portfolio credit quality is set in terms of the proportion of investment and non-investment grade exposures.

Investment/non-investment grade is determined by the internal rating assigned to a counterparty.

Internal counterparty ratings (and associated PDs), transaction ratings (and associated LGDs) and CCF for loan commitments are inputs to risk-weighted assets and Economic Risk Capital (ERC) calculations. Model outputs are the basis for risk-adjusted-pricing or assignment of credit competency levels.

The internal ratings are also integrated into the risk management reporting infrastructure and are reviewed in senior risk management committees. These committees include the Chief Executive Officer, Chief Credit Officer (CCO), Regional CCO, RPSC and Capital Allocation Risk Management Committee (CARMC).

To ensure ratings are assigned in a robust and consistent basis, the Global Risk Review Function (GRR) perform periodic portfolio reviews which cover, amongst other things:

– accuracy and consistency of assigned counterparty/transaction ratings;
– transparency of rating justifications (both the counterparty rating and transaction rating);
– quality of the underlying credit analysis and credit process;
– adherence to Credit Suisse policies, guidelines, procedures, and documentation checklists.

The GRR function is an independent control function within the CRM which reports to the head of Global Credit Control.

Institutional credit exposures by counterparty rating under PD/LGD approach

end of 6M14	Total exposure (CHF m)	Exposure-weighted average LGD (%)	Exposure-weighted average risk weight (%)[1]	Undrawn commit-ments (CHF m)
Sovereigns				
AAA	24,567	6.21	0.89	3
AA	30,373	8.57	2.18	132
A	1,662	40.67	11.08	–
BBB	5,151	43.85	25.04	1
BB	548	23.72	43.52	–
B or lower	767	38.23	154.01	–
Default (net of specific provisions)	–	–	–	–
Total credit exposure	**63,068**	–	–	**136**
Exposure-weighted average CCF (%)[2]	99.82	–	–	–
Other institutions				
AAA	–	–	–	–
AA	1,878	42.37	9.61	904
A	222	41.18	17.27	45
BBB	484	43.04	37.00	102
BB	43	43.45	75.58	3
B or lower	67	13.18	41.17	3
Default (net of specific provisions)	–	–	–	–
Total credit exposure	**2,694**	–	–	**1,057**
Exposure-weighted average CCF (%)[2]	67.41	–	–	–
Banks				
AAA	–	–	–	–
AA	12,362	53.16	12.09	868
A	27,999	46.80	15.59	2,196
BBB	7,388	44.40	39.67	232
BB	3,803	39.93	76.03	80
B or lower	553	36.90	120.26	31
Default (net of specific provisions)	85	–	–	–
Total credit exposure	**52,190**	–	–	**3,407**
Exposure-weighted average CCF (%)[2]	95.82	–	–	–
Corporates				
AAA	–	–	–	–
AA	40,749	49.78	12.05	7,713
A	38,844	46.91	19.54	9,831
BBB	45,780	38.09	36.32	10,285
BB	43,954	34.11	68.92	5,964
B or lower	16,153	32.41	115.08	5,586
Default (net of specific provisions)	1,097	–	–	142
Total credit exposure	**186,577**	–	–	**39,521**
Exposure-weighted average CCF (%)[2]	76.63	–	–	–
Total institutional credit exposure	**304,529**	–	–	**44,121**

1

The exposure-weighted average risk weights in percentage terms is the multiplier applied to regulatory exposures to derive risk-weighted assets, and may exceed 100%.

2 Calculated before credit risk mitigation.

Institutional credit exposures by counterparty rating under PD/LGD approach (continued)

end of 2013	Total exposure (CHF m)	Exposure-weighted average LGD (%)	Exposure-weighted average risk weight (%)[1]	Undrawn commitments (CHF m)
Sovereigns				
AAA	27,171	6.01	0.93	19
AA	33,173	6.41	1.79	79
A	925	43.53	13.25	30
BBB	6,431	46.95	24.86	1
BB	185	34.98	68.09	3
B or lower	376	29.24	104.84	–
Default (net of specific provisions)	278	–	–	–
Total credit exposure	**68,539**	–	–	**132**
Exposure-weighted average CCF (%)[2]	99.77	–	–	–
Other institutions				
AAA	–	–	–	–
AA	1,084	41.30	10.12	448
A	147	44.16	14.58	63
BBB	499	41.08	28.96	134
BB	44	43.11	69.47	8
B or lower	92	18.33	64.35	1
Default (net of specific provisions)	–	–	–	–
Total credit exposure	**1,866**	–	–	**654**
Exposure-weighted average CCF (%)[2]	57.40	–	–	–
Banks				
AAA	–	–	–	–
AA	6,883	48.74	11.10	894
A	20,843	48.72	17.32	2,010
BBB	6,458	40.23	35.46	294
BB	3,512	38.67	72.19	144
B or lower	553	34.23	102.64	16
Default (net of specific provisions)	149	–	–	–
Total credit exposure	**38,398**	–	–	**3,358**
Exposure-weighted average CCF (%)[2]	93.63	–	–	–
Corporates				
AAA	–	–	–	–
AA	32,560	46.10	11.57	6,655
A	32,436	42.23	18.57	8,851
BBB	46,770	37.54	36.27	11,283
BB	43,171	35.82	66.58	5,056
B or lower	15,927	35.40	117.94	5,113
Default (net of specific provisions)	1,101	–	–	8
Total credit exposure	**171,965**	–	–	**36,966**
Exposure-weighted average CCF (%)[2]	76.33	–	–	–
Total institutional credit exposure	**280,768**	–	–	**41,110**

1

The exposure-weighted average risk weights in percentage terms is the multiplier applied to regulatory exposures to derive risk-weighted assets, and may exceed 100%.

2 Calculated before credit risk mitigation.

Retail credit exposures by expected loss band under PD/LGD approach

end of 6M14	Total exposure (CHF m)	Exposure-weighted average LGD (%)	Exposure-weighted average risk weight (%)[1]	Undrawn commit-ments (CHF m)
Residential mortgages				
0.00%-0.15%	93,846	15.83	8.60	1,229
0.15%-0.30%	3,875	28.32	29.62	101
0.30%-1.00%	2,013	29.22	52.08	18
1.00% and above	148	25.26	97.27	–
Defaulted (net of specific provisions)	226	–	–	1
Total credit exposure	**100,108**	–	–	**1,349**
Exposure-weighted average CCF (%)[2]	97.91	–	–	–
Qualifying revolving retail				
0.00%-0.15%	–	–	–	–
0.15%-0.30%	–	–	–	–
0.30%-1.00%	501	50.00	23.35	–
1.00% and above	196	20.00	60.59	–
Defaulted (net of specific provisions)	1	–	–	–
Total credit exposure	**698**	–	–	**–**
Exposure-weighted average CCF (%)[2]	99.99	–	–	–
Other retail				
0.00%-0.15%	64,365	54.35	13.46	1,244
0.15%-0.30%	355	48.65	31.58	65
0.30%-1.00%	2,329	38.59	45.55	79
1.00% and above	2,112	40.96	58.93	47
Defaulted (net of specific provisions)	232	–	–	2
Total credit exposure	**69,393**	–	–	**1,437**
Exposure-weighted average CCF (%)[2]	94.13	–	–	–
Total retail credit exposure	**170,199**	–	–	**2,786**

1
The exposure-weighted average risk weights in percentage terms is the multiplier applied to regulatory exposures to derive risk-weighted assets, and may exceed 100%.

2
Calculated before credit risk mitigation.

Retail credit exposures by expected loss band under PD/LGD approach (continued)

end of 2013	Total exposure (CHF m)	Exposure-weighted average LGD (%)	Exposure-weighted average risk weight (%)[1]	Undrawn commitments (CHF m)
Residential mortgages				
0.00%-0.15%	91,837	15.83	7.82	1,195
0.15%-0.30%	4,355	29.06	29.31	145
0.30%-1.00%	2,226	28.71	49.38	45
1.00% and above	162	23.87	91.49	–
Defaulted (net of specific provisions)	220	–	–	1
Total credit exposure	**98,800**	–	–	**1,386**
Exposure-weighted average CCF (%)[2]	97.89	–	–	–
Qualifying revolving retail				
0.00%-0.15%	–	–	–	–
0.15%-0.30%	–	–	–	–
0.30%-1.00%	515	50.00	23.35	–
1.00% and above	183	20.00	60.59	–
Defaulted (net of specific provisions)	1	–	–	–
Total credit exposure	**699**	–	–	**–**
Exposure-weighted average CCF (%)[2]	99.98	–	–	–
Other retail				
0.00%-0.15%	57,924	54.15	13.42	1,218
0.15%-0.30%	503	47.03	29.61	60
0.30%-1.00%	2,284	39.25	46.02	111
1.00% and above	2,143	40.79	60.44	41
Defaulted (net of specific provisions)	202	–	–	2
Total credit exposure	**63,056**	–	–	**1,432**
Exposure-weighted average CCF (%)[2]	93.68	–	–	–
Total retail credit exposure	**162,555**	–	–	**2,818**

1
The exposure-weighted average risk weights in percentage terms is the multiplier applied to regulatory exposures to derive risk-weighted assets, and may exceed 100%.
2
Calculated before credit risk mitigation.

Portfolios subject to the standardized and supervisory risk weights approaches

Standardized approach

Under the standardized approach, risk weights are determined either according to credit ratings provided by recognized external credit assessment institutions or, for unrated exposures, by using the applicable regulatory risk weights. Less than 10% of our credit risk is determined using this approach. Balances include banking book treasury liquidity positions.

Supervisory risk weights approach

For specialized lending exposures, internal rating grades are mapped to one of five supervisory categories, associated with a specific risk weight under the SRW approach.

Equity IRB Simple approach

For equity type securities in the banking book, risk weights are determined using the IRB Simple approach, which differentiates by equity sub-asset types (listed equity and all other equity positions). From January 1, 2014, the risk weighting for private equity positions was increased to 400%, in line with the treatment applied to other equity positions.

Standardized and supervisory risk weighted exposures after risk mitigation by risk weighting bands

end of	Standardized approach	SRW	Equity IRB Simple	Total
6M14 (CHF million)				
0%	9,503	44	0	9,547
>0%-50%	1,574	607	0	2,181
>50%-100%	3,206	342	0	3,548
>100%-200%	0	0	0	0
>200%-400%	0	89	3,260	3,349
Total	**14,283**	**1,082**	**3,260**	**18,625**
2013 (CHF million)				
0%	8,699	131	0	8,830
>0%-50%	1,592	607	0	2,199
>50%-100%	3,195	287	0	3,482
>100%-200%	0	0	1,562	1,562
>200%-400%	0	0	1,871	1,871
Total	**13,486**	**1,025**	**3,433**	**17,944**

Credit risk mitigation used for A-IRB and standardized approaches
Credit risk mitigation processes used under the A-IRB and standardized approaches include on- and off-balance sheet netting and utilizing eligible collateral as defined under the IRB approach.

Netting
> Refer to “Derivative instruments” (pages 135 to 136) in III – Treasury, Risk, Balance sheet and Off-balance sheet – Risk management – Credit risk and to “Note 1 – Summary of significant accounting policies” (pages 217 to 218) in V – Consolidated financial statements – Credit Suisse Group in the Credit Suisse Annual Report 2013 for information on policies and procedures for on- and off-balance sheet netting.
> Refer to “Note 20 – Offsetting of financial assets and financial liabilities” (pages 105 to 108) in III – Condensed consolidated financial statements – unaudited in the Credit Suisse 2Q14 Financial Report for further information on the offsetting of derivatives, reverse repurchase and repurchase agreements, and securities lending and borrowing transactions.

Collateral valuation and management
The policies and processes for collateral valuation and management are driven by:

– a legal document framework that is bilaterally agreed with our clients; and
– a collateral management risk framework enforcing transparency through self-assessment and management reporting.

For collateralized portfolio by marketable securities, the valuation is performed daily. Exceptions are governed by the calculation frequency described in the legal documentation. The mark-to-market prices used for valuing collateral are a combination of firm and market prices sourced from trading platforms and service providers, where appropriate. The management of collateral is standardized and centralized to ensure complete coverage of traded products.
For the Private Banking & Wealth Management mortgage lending portfolio, real estate property is valued at the time of credit approval and periodically afterwards, according to our internal policies and controls, depending on the type

of loan (e.g., residential, commercial) and loan-to-value ratio.

Primary types of collateral
The primary types of collateral are described below.

Collateral securing foreign exchange transactions and OTC trading activities primarily includes:

– Cash and US Treasury instruments;
– G-10 government securities; and
– Corporate bonds.

Collateral securing loan transactions primarily includes:

– Financial collateral pledged against loans collateralized by securities of Private Banking & Wealth Management clients (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.

Concentrations within risk mitigation

Our Investment Banking division is an active participant in the credit derivatives market and trades with a variety of market participants, principally commercial banks and broker dealers. Credit derivatives are primarily used to mitigate investment grade counterparty exposures.

Concentrations in our Private Banking & Wealth Management lending portfolio arise due to a significant volume of mortgages in Switzerland. The financial collateral used to secure loans collateralized by securities worldwide is generally diversified and the portfolio is regularly analyzed to identify any underlying concentrations, which may result in lower loan-to-value ratios.

> Refer to “Credit risk” (pages 128 to 139) in III – Treasury, Risk, Balance sheet and Off-balance sheet – Risk management in the Credit Suisse Annual Report 2013 for further information on risk mitigation.

Credit risk mitigation used for A-IRB and standardized approaches

end of	Eligible financial collateral	Other eligible IRB collateral	Eligible guarantees/ credit derivatives
6M14 (CHF million)			
Sovereigns	461	0	4,881
Other institutions	3	117	179
Banks	2,218	0	775
Corporates	5,270	31,871	17,227
Residential mortgages	3,696	80,781	47
Other retail	57,406	3,841	270
Total	**69,054**	**116,610**	**23,379**
2013 (CHF million)			
Sovereigns	345	0	3,100
Other institutions	10	136	97
Banks	2,611	0	994
Corporates	4,119	31,206	16,088
Residential mortgages	3,750	79,453	52
Other retail	51,816	3,436	233
Total	**62,651**	**114,231**	**20,564**

Excludes collateral used to adjust EAD (e.g. as applied under the internal models method).

Counterparty credit risk

Counterparty exposure

Counterparty credit risk arises from OTC and exchange-traded derivatives, repurchase agreements, securities lending and borrowing and other similar products and activities. The subsequent credit risk exposures depend on the value of underlying market factors (e.g., interest rates and foreign exchange rates), which can be volatile and uncertain in nature.

We have received approval from FINMA to use the internal model method for measuring counterparty risk for the majority of our derivative and secured financing exposures.

Credit limits

All credit exposure is approved, either by approval of an individual transaction/facility (e.g., lending facilities), or under a system of credit limits (e.g., OTC derivatives). Credit exposure is monitored daily to ensure it does not exceed the approved credit limit. These credit limits are set either on a potential exposure basis or on a notional exposure basis. Potential exposure means the possible future value that would be lost upon default of the counterparty on a

particular future date, and is taken as a high percentile of a distribution of possible exposures computed by our internal exposure models. Secondary debt inventory positions are subject to separate limits that are set at the issuer level.
> Refer to “Credit risk” (pages 128 to 139) in III – Treasury, Risk, Balance sheet and Off-balance sheet – Risk management in the Credit Suisse Annual Report 2013 for further information on counterparty credit risk, including transaction rating, credit approval process and provisioning.

Wrong-way exposures
Correlation risk arises when we enter into a financial transaction where market rates are correlated to the financial health of the counterparty. In a wrong-way trading situation, our exposure to the counterparty increases while the counterparty’s financial health and its ability to pay on the transaction diminishes.
Capturing wrong-way risk requires the establishment of basic assumptions regarding correlations for a given trading product. We have multiple processes that allow us to capture and estimate wrong-way risk.

Credit approval and reviews
A primary responsibility of CRM is to monitor counterparty exposure and the creditworthiness of a counterparty, both at the initiation of the relationship and on an ongoing basis. Part of the review and approval process is an analysis and discussion to understand the motivation of the client and to identify the directional nature of the trading in which the client is engaged. Credit limits are agreed in line with the Group's risk appetite framework taking into account the strategy of the counterparty, the level of disclosure of financial information and the amount of risk mitigation that is present in the trading relationship (e.g., level of collateral).

Exposure adjusted risk calculation
Material trades that feature specific wrong-way risk are applied a conservative treatment for the purpose of calculating exposure profiles. The wrong-way risk framework applies to OTC, securities financing transactions and centrally cleared trades.
Wrong-way risk arises if the exposure the Group has against a counterparty is expected to be high when the probability of default of that counterparty is also high. Wrong-way risk can affect the exposure against a counterparty in two ways:

– The mark-to-market of a trade can be large if the counterparty's PD is high.
– The value of collateral pledged by that counterparty can be low if the counterparty's PD is high.

Two main types of wrong-way risk are distinguished:

– "General wrong-way risk" arises when the likelihood of default by counterparties is positively correlated with general market risk factors.
– "Specific wrong-way risk" arises when potential exposure to a specific counterparty is positively correlated with the counterparty' probability of default due to the nature of the transactions with the counterparty.

There are two variants of specific wrong-way risk:

– If there is a legal connection between the counterparty and the exposure, e.g. the Group buying a put from a counterparty on shares of that counterparty or a parent/subsidiary of that counterparty or a counterparty pledging its own shares or bonds as collateral.
– More general correlation driven specific wrong-way risk.

The presence of wrong-way risk is detected via automated checks for legal connection and via means of stress scenarios and historical time series analyses for correlation.
For those instances where a material wrong-way risk presence is detected, limit utilization and default capital are accordingly adjusted.
Regular reporting of wrong-way risk at both the individual trade and portfolio level allows wrong-way risk to be identified and corrective action taken in the case of heightened concern by CRM. Reporting occurs at various levels:

– Country exposure reporting – Exposure is reported against country limits established for emerging market countries. Exposures that exhibit wrong-way characteristics are given higher risk weighting versus non-correlated transactions, resulting in a greater amount of country limit usage for these trades.
– Counterparty exposure reporting – Transactions that contain wrong-way risk are risk-weighted as part of the daily exposure calculation process, as defined in the credit analytics exposure methodology document. This ensures that correlated transactions utilize more credit limit.
– Correlated repurchase and foreign exchange reports – Monthly reports produced by CRM capturing correlated repurchase and foreign exchange transactions. This information is reviewed by relevant CRM credit officers.

– Scenario risk reporting – In order to identify areas of potential wrong-way risk within the portfolio, a set of defined scenarios are run monthly by Risk Analytics and Reporting. The scenarios are determined by CRM and involve combining existing scenario drivers with specific industries to determine where portfolios are sensitive to these stressed parameters, e.g. construction companies / rising interest rates.
– Scenario analysis is also produced for hedge funds which are exposed to particular risk sensitivities and also may have collateral concentrations due to a specific direction and strategy.
– In addition, and where required, CRM may prepare periodic trade level scenario analysis, in order to review the risk drivers and directionality of the exposure to a counterparty.

The Front Office is responsible for identifying and escalating trades that could potentially give rise to wrong-way risk. Any material wrong-way risk at portfolio or trade level should be escalated to senior CRM executives and risk committees.

Effect of a credit rating downgrade
On a daily basis, we monitor the level of incremental collateral that would be required by derivative counterparties in the event of a Credit Suisse ratings downgrade. Collateral triggers are maintained by our collateral management department and vary by counterparty.
> Refer to “Credit ratings” (page 46) in II – Treasury, risk, balance sheet and off-balance sheet – Liquidity and funding management in the Credit Suisse 2Q14 Financial Report for further information on the effect of a one, two or three notch downgrade as of June 30, 2014.

The impact of downgrades in the Bank’s long-term debt ratings are considered in the stress assumptions used to determine the conservative funding profile of our balance sheet and would not be material to our liquidity and funding needs.
> Refer to “Liquidity and funding management” (pages 94 to 100) in III – Treasury, Risk, Balance sheet and Off-balance sheet in the Credit Suisse Annual Report 2013 for further information on liquidity and funding management.

Credit exposures on derivative instruments

We enter into derivative contracts in the normal course of business for market making, positioning and arbitrage purposes, as well as for our own risk management needs, including mitigation of interest rate, foreign currency and credit risk. Derivative exposure also includes economic hedges, where the Group enters into derivative contracts for its own risk management purposes but where the contracts do not qualify for hedge accounting under US GAAP. Derivative exposures are calculated according to regulatory methods, using either the current exposures method or approved internal models method. These regulatory methods take into account potential future movements and as a result generate risk exposures that are greater than the net replacement values disclosed for US GAAP.

As of the end of 6M14, no credit derivatives were utilized that qualify for hedge accounting under US GAAP.

> Refer to “Derivative instruments” (pages 135 to 136) in III – Treasury, Risk, Balance sheet and Off-balance sheet – Risk management – Credit risk in the Credit Suisse Annual Report 2013 for further information on derivative instruments, including counterparties and their creditworthiness.

> Refer to “Note 24 – Derivative and hedging activities” (pages 113 to 117) in III – Condensed consolidated financial statements – unaudited in the Credit Suisse 2Q14 Financial Report for further information on the fair value of derivative instruments and the distribution of current credit exposures by types of credit exposures.

> Refer to “Note 20 – Offsetting of financial assets and financial liabilities” (pages 105 to 108) in III – Condensed consolidated financial statements – unaudited in the Credit Suisse 2Q14 Financial Report for further information on netting benefits, netted current credit exposures, collateral held and net derivatives credit exposure.

Derivative exposure at default after netting end of	6M14	2013
Derivative exposure at default (CHF million)		
Internal models method	54,734	37,755
Current exposure method	7,509	7,353
Total derivative exposure	**62,243**	**45,108**

Collateral used for risk mitigation end of	6M14	2013
Collateral used for risk mitigation for the internal models method (CHF million)		
Financial collateral - cash / securities	26,399	24,911
Other eligible IRB collateral	771	407
Total collateral used for the internal models method	**27,170**	**25,318**
Collateral used for risk mitigation for the current exposure method (CHF million)		
Financial collateral - cash / securities	2,357	2,489
Other eligible IRB collateral	396	277
Total collateral used for the current exposure method	**2,753**	**2,766**

Credit derivatives that create exposures to counterparty credit risk (notional value)

	6M14		2013	
end of	Protection bought	Protection sold	Protection bought	Protection sold
Credit derivatives that create exposures to counterparty credit risk (CHF billion)				
Credit default swaps	664.2	616.9	717.4	675.6
Total return swaps	9.8	0.1	7.3	0.1
Other credit derivatives	44.1	21.4	60.7	22.2
Total	**718.1**	**638.4**	**785.4**	**697.9**

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Allowances and impaired loans

The following tables provide additional information on allowances and impaired loans by geographic distribution and changes in the allowances for impaired loans.

Geographic distribution of allowances and impaired loans

end of	Allowances individually evaluated for impairment	Allowances collectively evaluated for impairment	Total allowances	Impaired loans with specific allowances	Impaired loans without specific allowances	Total impaired loans
6M14 (CHF million)						
Switzerland	494	171	665	1,047	109	1,156
EMEA	9	12	21	56	4	60
Americas	55	19	74	161	15	176
Asia Pacific	55	6	61	56	24	80
Total	**613**	**208**	**821**	**1,320**	**152**	**1,472**
2013 (CHF million)						
Switzerland	531	174	705	1,142	68	1,210
EMEA	21	15	36	39	1	40
Americas	56	20	76	180	8	188
Asia Pacific	46	6	52	51	0	51
Total	**654**	**215**	**869**	**1,412**	**77**	**1,489**

The geographic distribution of impaired loans is based on the location of the office recording the transaction. This presentation does not reflect the way the Group is managed.

Changes in the allowances for impaired loans

	6M14			6M13		
in	Allowances individually evaluated for impairment	Allowances collectively evaluated for impairment	Total	Allowances individually evaluated for impairment	Allowances collectively evaluated for impairment	Total
Changes in the allowances for impaired loans (CHF million)						
Balance at beginning of period	**654**	**215**	**869**	**696**	**226**	**922**
Net additions/(releases) charged to income statement	58	(6)	52	72	(3)	69
Gross write-offs	(138)	0	(138)	(153)	0	(153)
Recoveries	29	0	29	36	0	36
Net write-offs	(109)	0	(109)	(117)	0	(117)
Provisions for interest	8	0	8	13	0	13
Foreign currency translation impact and other adjustments, net	2	(1)	1	12	1	13
Balance at end of period	**613**	**208**	**821**	**676**	**224**	**900**

> Refer to “Loans” in “Note 1 – Summary of significant accounting policies” (pages 219 to 221) in V – Consolidated financial statements – Credit Suisse Group in the Credit Suisse Annual Report 2013 for further information on definitions of past due and impaired loans.

> Refer to “Note 16 – Loans, allowance for loan losses and credit quality” (pages 93 to 101) in III – Condensed consolidated financial statements – unaudited in the Credit Suisse 2Q14 Financial Report for further information on allowances and impaired loans by industry distribution and the industry distribution of charges and write-offs.

Securitization risk in the banking book

The following disclosures, which also considers the “Industry good practice guidelines on Pillar 3 disclosure requirements for securitization”, refer to traditional and synthetic securitizations held in the banking book and regulatory capital on these exposures calculated according to the Basel III IRB and standardized approaches to securitization exposures.

> Refer to “Note 33 – Transfers of financial assets and variable interest entities” (pages 292 to 300) in V – Consolidated financial statements – Credit Suisse Group in the Credit Suisse Annual Report 2013 and “Note “26 – Transfers of financial assets and variable interest entities” (pages 121 to 126) in III – Condensed consolidated financial statements – unaudited in the Credit Suisse 2Q14 Financial Report for further information on securitization, the various roles, the use of SPEs, the involvement of the Group in consolidated and non-consolidated SPEs, the accounting policies for securitization activities and methods and key assumptions applied in valuing positions retained/purchased.

A traditional securitization is a structure where an underlying pool of assets is sold to an SPE which pays for the assets by issuing tranched securities collateralized by the underlying asset pool. A synthetic securitization is a tranched structure where the credit risk of an underlying pool of assets is transferred, in whole or in part, through the use of credit derivatives or guarantees that may serve to hedge the credit risk of the portfolio. Many synthetic securitizations are not accounted for as securitizations under US GAAP. In both traditional and synthetic securitizations, risk is dependent on the seniority of the retained interest and the performance of the underlying asset pool.

The Group has both securitization and re-securitization transactions in the banking book referencing different types of underlying assets including real estate loans (commercial and residential), commercial loans and credit card loans. The key risks retained are related to the performance of the underlying assets. These risks are summarized in the securitization pool level attributes: PDs of underlying loans (default rate), severity of loss (LGD) and prepayment speeds. The transactions may also be exposed to general market risk, credit spread and counterparty credit risk.

The Group classifies securities within the transactions by the nature of the collateral (prime, sub-prime, Alt-A, commercial, etc.) and the seniority each security has in the capital structure (i.e. senior, mezzanine, subordinate etc.), which in turn will be reflected in the transaction rating. The Group’s internal risk methodology is designed such that risk charges are based on the place the particular security holds in the capital structure, the less senior the bond the higher the risk charges.

For re-securitization risk, the Group’s risk management models take a ‘look through’ approach where the behavior of the underlying securities or constituent counterparties are modeled based on their own particular collateral positions. These are then transmitted to the re-securitized position. No additional risk factors are considered within the re-securitization portfolios in addition to those identified and measured within securitization risk.

The Group is active in various roles in connection with securitization, including originator, investor and sponsor. As originator, the Group creates or purchases financial assets (e.g., residential mortgages or corporate loans) and then securitizes them in a traditional or synthetic transaction that achieves significant risk transfer to third party investors. The Group acts as liquidity provider to Alpine Securitization Corp. (Alpine), a multi-seller commercial paper conduit administered by Credit Suisse.

In addition, the Group invests in securitization-related products created by third parties and provides interest rate and currency swaps to SPEs involved in securitization activity.

Retained banking book exposures for mortgage, asset-backed securities (ABS) and collateralized debt obligation (CDO) transactions are risk managed on the same basis as similar trading book transactions. Other transactions will be managed in line with their individual structural or parameter requirements. The Group has also put in place a set of key risk limits for the purpose of managing the Group’s risk appetite framework in relation to securitizations and re-securitizations. The internal risk capital measurement is both consistent with securitization transactions and with similar structures in the trading book.

There are no instances where the Group has applied credit risk mitigation approaches to banking book securitization or re-securitization exposures.

In the normal course of business it is possible for the Group's managed separate account portfolios and the Group's controlled investment entities, such as mutual funds, fund of funds, private equity funds and other fund linked products to invest in the securities issued by other vehicles sponsored by the Group engaged in securitization and re-securitization activities. To address potential conflicts, standards governing investments in affiliated products and funds have been adopted.

Securitization exposures purchased or retained – banking book

	On-balance sheet		Off-balance sheet		
end of	Traditional	Synthetic	Traditional	Synthetic	Total
6M14 (CHF million)					
Commercial mortgages	620	0	0	0	620
Residential mortgages	23	0	0	0	23
CDO/CLO	3,741	16,178	0	0	19,919
Other ABS	744	1	15,455	0	16,200
Total	**5,128**	**16,179**	**15,455**	**0**	**36,762**
2013 (CHF million)					
Commercial mortgages	739	0	0	0	739
Residential mortgages	2	0	0	0	2
CDO/CLO	3,631	27,635	0	0	31,266
Other ABS	584	1	15,736	0	16,321
Total	**4,956**	**27,636**	**15,736**	**0**	**48,328**

Synthetic structures predominantly represent structures where the Group has mitigated its risk by selling the mezzanine tranche of a reference portfolio. Amounts disclosed, however, are the gross exposures securitized including retained senior notes.

The following table represents the total amounts of banking book loans securitized by the Group that fall within the Basel III Securitization Framework and where the Group continues to retain at least some interests. As of the end of June 30, 2014 and December 31, 2013, the Group's economic interests in these securitizations were CHF 24.6 billion and CHF 38.1 billion, respectively.

Exposures securitized by Credit Suisse Group in which the Group has retained interests – banking book

	6M14				2013			
	Traditional		Synthetic		Traditional		Synthetic	
end of	Sponsor	Other role	Other role	Total	Sponsor	Other role	Other role	Total
CHF million								
Commercial mortgages	0	3,135	0	3,135	0	3,470	0	3,470
Residential mortgages	0	21	0	21	0	0	0	0
CDO/CLO	376	489	22,869	23,734	380	974	30,620	31,974
Other ABS	7,636	1,019	0	8,655	9,654	1,031	0	10,685
Total	**8,012**	**4,664**	**22,869**	**35,545**	**10,034**	**5,475**	**30,620**	**46,129**
of which retained interests				**24,563**				**38,084**

Losses related to securitizations recognized during the period – banking book

in	Sponsor	Traditional Other role	Synthetic Other role	Total
6M14 (CHF million)				
Commercial mortgages	0	0	0	0
CDO/CLO	0	0	6	6
Total	**0**	**0**	**6**	**6**
6M13 (CHF million)				
Commercial mortgages	0	4	0	4
CDO/CLO	0	0	12	12
Total	**0**	**4**	**12**	**16**

Impaired or past due assets securitized – banking book

	6M14				2013			
end of	Sponsor	Traditional Other role	Synthetic Other role	Total	Sponsor	Traditional Other role	Synthetic Other role	Total
CHF million								
Commercial mortgages	0	2,919	0	2,919	0	3,217	0	3,217
Residential mortgages	0	0	0	0	0	0	0	0
CDO/CLO	0	52	744	796	0	0	763	763
Other ABS	0	0	0	0	0	0	0	0
Total	**0**	**2,971**	**744**	**3,715**	**0**	**3,217**	**763**	**3,980**

Securitization and re-securitization exposures by regulatory capital approach – banking book

	Securitization exposure		Re-securitization exposure		Total	
end of	EAD purchased/ retained	Risk-weighted assets	EAD purchased/ retained	Risk-weighted assets	EAD purchased/ retained	Risk-weighted assets
6M14 (CHF million)						
Ratings-based approach (RBA)	9,039	2,463	8,538	4,085	**17,577**	**6,548**
Supervisory formula approach (SFA)	17,931	3,553	1,253	1,343	**19,184**	**4,896**
Total advanced approaches	26,970	6,016	9,791	5,428	**36,761**	**11,444**
Total	**26,970**	**6,016**	**9,791**	**5,428**	**36,761**	**11,444**
2013 (CHF million)						
Ratings-based approach (RBA)	6,933	2,475	10,677	4,436	**17,610**	**6,911**
Supervisory formula approach (SFA)	29,418	6,175	1,300	1,849	**30,718**	**8,024**
Total advanced approaches	36,351	8,650	11,977	6,285	**48,328**	**14,935**
Total	**36,351**	**8,650**	**11,977**	**6,285**	**48,328**	**14,935**

1

Positions under the standardized approach are risk weighted at 50%.

Securitization and re-securitization exposures under RBA by rating grade – banking book

	Securitization exposure		Re-securitization exposure		Total	
end of	EAD purchased/ retained	Risk-weighted assets	EAD purchased/ retained	Risk-weighted assets	EAD purchased/ retained	Risk-weighted assets
6M14 (CHF million)						
AAA	4,445	331	8,038	2,476	**12,483**	**2,807**
AA	1,998	191	145	62	**2,143**	**253**
A	2,322	331	101	70	**2,423**	**401**
BBB	77	52	113	269	**190**	**321**
BB	24	80	98	674	**122**	**754**
B or lower or unrated	173	1,478	43	534	**216**	**2,012**
Total	**9,039**	**2,463**	**8,538**	**4,085**	**17,577**	**6,548**
2013 (CHF million)						
AAA	2,906	219	10,127	3,130	**13,033**	**3,349**
AA	1,389	121	189	80	**1,578**	**201**
A	2,405	489	133	92	**2,538**	**581**
BBB	74	53	133	318	**207**	**371**
BB	49	199	67	463	**116**	**662**
B or lower or unrated	110	1,394	28	353	**138**	**1,747**
Total	**6,933**	**2,475**	**10,677**	**4,436**	**17,610**	**6,911**

Securitization and re-securitization exposures under SFA by risk weight band – banking book

	Securitization exposure		Re-securitization exposure		Total	
end of	EAD purchased/ retained	Risk-weighted assets	EAD purchased/ retained	Risk-weighted assets	EAD purchased/ retained	Risk-weighted assets
6M14 (CHF million)						
0%-10%	11,889	830	0	0	**11,889**	**830**
>10%-50%	5,369	968	956	180	**6,325**	**1,148**
>50%-100%	282	240	79	43	**361**	**283**
>100%-650%	299	355	155	406	**454**	**761**
>650%-1250%	92	1,160	63	714	**155**	**1,874**
Total	**17,931**	**3,553**	**1,253**	**1,343**	**19,184**	**4,896**
2013 (CHF million)						
0%-10%	27,624	4,765	0	0	**27,624**	**4,765**
>10%-50%	1,450	706	874	193	**2,324**	**899**
>50%-100%	106	81	0	0	**106**	**81**
>100%-650%	73	198	342	734	**415**	**932**
>650%-1250%	165	425	84	922	**249**	**1,347**
Total	**29,418**	**6,175**	**1,300**	**1,849**	**30,718**	**8,024**

Securitization activity
Within Investment Banking the Group synthetically securitized a CHF 4.1 billion portfolio of OTC derivative counterparty exposures and a CHF 1.3 billion portfolio of life insurance policies and annuities.
The following table represents new securitization activity during the period.

Securitization activity – banking book

	6M14		6M13	
in CHF million	Amount of exposures securitized	Recognized gain/(loss) on sale	Amount of exposures securitized	Recognized gain/(loss) on sale
CDO/CLO - synthetic	5,444	0	5,385	0
Other ABS - traditional	0	0	223	0
Total	**5,444**	**0**	**5,608**	**0**

Securitization subject to early amortization
The aggregate outstanding amount of securitized revolving retail exposures is CHF 891 million, of which CHF 307 million represents the originator's interest and CHF 584 million (categorized as other ABS) the investor's interest. The associated capital charges incurred by the Group under the ratings-based approach are CHF 5.7 million and CHF 8.4 million, respectively.

Other information
As of June 30, 2014, the Group intends to synthetically securitize a USD 2.4 billion portfolio of exchange traded derivatives exposures and a USD 3.0 billion portfolio of corporate loan exposures. There is no difference in the valuation of positions intended to be securitized.

Equity type securities in the banking book
Overview
The classification of our equity type securities into trading book and banking book is made for regulatory reporting purposes. The banking book includes all items that are not classified in the trading book.
Most of our equity type securities in the banking book are classified as investment securities whereas the remaining part is classified as trading assets.
For equity type securities in the banking book except for significant investments in BFI entities that are subject to a threshold treatment as outlined in "Exposures below 15% threshold" in section "Capital" on page 8, risk weights are determined using the IRB Simple approach based on the equity sub-asset type. Where equity type securities represent non-significant investments in BFI entities, a threshold approach is applied, that compares the total amount of non-significant investments in BFI entities (considering both trading and banking book positions) to a 10% regulatory defined eligible capital amount. The amount above the threshold is phased-in as a capital deduction and the amount below the threshold continues to be risk-weighted according to the relevant trading book and banking book approaches.
The numbers below present the balance sheet value of banking book equity investments and the regulatory exposures to which capital is applied. The main differences are the scope of consolidation (deconsolidation of private equity and other fund type vehicles for capital adequacy reporting) and regulatory approaches such as the net-long calculation and the look-through approach on certain equity securities.

Risk measurement and management

Our banking book equity portfolio includes positions in hedge funds, private equity and other instruments that may not be strongly correlated with general equity markets. Equity risk on banking book positions is measured using sensitivity analysis that estimates the potential change in value resulting from a 10% decline in the equity markets of developed nations and a 20% decline in the equity markets of emerging market nations.
> Refer to “Banking portfolios” (pages 127 to 128) in III – Treasury, Risk, Balance sheet and Off-balance sheet – Risk management – Market risk in the Credit Suisse Annual Report 2013 for further information on risk measurement and management of our banking portfolios.

Valuation and accounting policies of equity holdings in the banking book
> Refer to “Note 1 – Summary of significant accounting policies” (pages 217 to 218) in V – Consolidated financial statements – Credit Suisse Group in the Credit Suisse Annual Report 2013 for information on valuation and accounting policies of investment securities and trading assets.

Equity type securities in the banking book end of / in	6M14	2013
Equity type securities in the banking book (CHF million)		
Balance sheet value of investments at fair value	6,216	8,765
Regulatory exposures at fair value [1]	3,260	3,433
Realized gains/(losses) [2]	130	(189)
Cumulative unrealized gains/(losses) included in CET1 capital [2]	(101)	(258)

1
Primarily privately held.
2
Gains/(losses) are reported gross of tax.

Central counterparties risk

The Group can incur exposure to CCPs as either a clearing member (house or client trades), or clearing through another member. Qualifying CCPs are expected to be subject to best-practice risk management, and sound regulation and oversight to ensure that they reduce risk, both for their participants and for the financial system. Most CCPs are benchmarked against standards issued by the Committee on Payment and Settlement Systems and the Technical Committee of the International Organization of Securities Commissions, herein collectively referred to as "CPSS-IOSCO".

The existing credit review process includes annual review of qualitative and quantitative factors for all counterparty types, including CCPs. As part of the credit review of each CCP counterparty, CRM conducts due diligence and based on assessment by the Legal and Compliance Department determines whether (i) the CCP is a qualifying CCP and (ii) the collateral posted is considered bankruptcy remote.

The CRM CCP Guidelines provide detailed guidance on how these flags should be assigned against the standards issued by "CPSS-IOSCO". These include a review of collateral bankruptcy remoteness and that the CCPs holds securities in custody with entities that employ safekeeping procedures and internal controls that fully protect these securities. The review will include analysis of the CCPs policies with respect to account segregation and use of custodians. The determination is made in the context of "Authorization of CCP" (European Market Infrastructure Regulation (EMIR), Article 10) and "Third Countries" (EMIR, Article 23). This information will be appropriately reflected in the risk weightings within the capital calculations.

The Group monitors its daily exposure to the CCP as part of its ongoing limit and exposure monitoring process.

Market risk

General

Market risk is managed under the IMA approach and under the approved securitization methodologies. Validation of the IMA models is performed by an independent function and is subject to clear and objective internal standards as outlined in the Validation Policy.

The following table shows risk-weighted assets for all market risk measures including the standardized approach.

> Refer to “Market risk” (pages 122 to 128) in III – Treasury, Risk, Balance sheet and Off-balance sheet – Risk management in the Credit Suisse Annual Report 2013 and “Market risk” (pages 61 to 64) in II – Treasury, risk, balance sheet and off-balance sheet – Risk management in the Credit Suisse 2Q14 Financial Report for further information on market risk, including information on risk measurement, VaR, risks not in VaR, stress testing and backtesting.

Risk-weighted assets for market risk

end of	6M14	2013
Risk-weighted assets for market risk (CHF million)		
Total internal models approach	**24,097**	**25,561**
of which regulatory VaR	2,236	2,192
of which stressed VaR	10,330	11,716
of which risks not in VaR	6,271	5,333
of which Incremental Risk Charge	5,023	6,010
of which Comprehensive Risk Measure	237	310
Total standardized measurement method	**8,035**	**13,158**
of which ratings-based approach	7,819	12,889
of which other supervisory approaches	216	269
Total advanced approach	**32,132**	**38,719**
Total standardized approach	**572**	**414**
Total risk-weighted assets for market risk	**32,704**	**39,133**

Regulatory VaR, stressed VaR, Incremental Risk Charge and Comprehensive Risk Measure

in / end of	Regulatory VaR[1]	Stressed VaR[1]	IRC[2]	Comprehensive Risk Measure[3]
6M14 (CHF million)				
Average	20	86	418	19
Minimum	16	60	225	16
Maximum	26	127	679	26
End of period	21	96	402	16
2013 (CHF million)				
Average	27	105	420	12
Minimum	15	53	251	4
Maximum	58	226	609	27
End of period	19	126	450	25

All numbers disclosed are spot numbers. Regulatory VaR, stressed VaR and IRC exclude trading book securitizations, in line with BIS guidance.

1

For regulatory and stressed VaR, one-day VaR based on a 99% confidence level is presented, which is a ten-day VaR adjusted to a one-day holding period.

2 IRC is based on a 99% confidence level over a one year time horizon.

3 Comprehensive Risk Measure numbers are model-based covering the period from implementation in July 2012. These numbers may not necessarily be aligned with the risk-weighted assets reported in the table "Risk-weighted assets for market risk" as for the calculation of risk-weighted assets the standard rules floor is applied.

Securitization risk in the trading book

> Refer to “Note 33 – Transfers of financial assets and variable interest entities” (pages 292 to 300) in V – Consolidated financial statements – Credit Suisse Group in the Credit Suisse Annual Report 2013 and “Note 26 – Transfers of financial assets and variable interest entities” (pages 121 to 126) in III – Condensed consolidated financial statements – unaudited in the Credit Suisse 2Q14 Financial Report for further information on securitization, the various roles, the use of SPEs, the involvement of the Group in consolidated and non-consolidated SPEs, the accounting policies for securitization activities, methods and key assumptions applied in valuing positions retained/purchased and gains/losses relating to RMBS and CMBS securitization activity in 6M14.

Roles in connection with trading book securitization

Within its mortgage business there are four key roles that the Group undertakes within securitization markets: issuer, underwriter, market maker and financing counterparty. The Group holds one of the top trading franchises in market making in all major securitized product types and is a top issuer and underwriter in the re-securitization market in the US as well as being one of the top underwriters in ABS securitization in the US. In addition the Group also has a relatively small correlation trading portfolio.

Securitization and re-securitization activities

The Group’s key objective in relation to trading book securitization is to meet clients’ investment and divestment needs by making markets in securitized products across all major collateral types, including residential mortgages, commercial mortgages, asset finance (i.e. auto loans, credit card receivables, etc.) and corporate loans. The Group focuses on opportunities to intermediate transfers of risk between sellers and buyers.

The Group is also active in new issue securitization and re-securitization. The Group’s Asset Finance team provides short-term secured warehouse financing to clients who originate credit card, auto loan, and other receivables, and the Group sells asset-backed securities collateralized by these receivables to provide its clients long-term financing that matches the lives of their assets.

The Group purchases loans and bonds for the purpose of securitization and sells these assets to sponsored SPEs which in turn issue new securities. Re-securitizations of previously issued residential mortgage-backed securities (RMBS) securities occur when certificates issued out of an existing securitization vehicle are sold into a newly created and separate securitization vehicle. Often, these re-securitizations are initiated in order to repackage an existing security to give the investor a higher rated tranche.

Risks assumed and retained

Key risks retained while securities or loans remain in inventory are related to the performance of the underlying assets (real estate loans, commercial loans, credit card loans, etc.). These risks are summarized in the securitization pool level attributes: PD of underlying loans (default rate), the severity of loss and prepayment speeds. The Group maintains models for both government-guaranteed and private label mortgage products. These models project the above risk drivers based on market interest rates and volatility as well as macro-economic variables such as housing price index, projected GDP and inflation, unemployment etc.

In its role as a market maker, the Group actively trades in and out of positions. Both Front Office and Risk Management continuously monitor liquidity risk as reflected in trading spreads and trading volumes. To address liquidity concerns a specific set of limits on the size of aged positions are in place for the securitized positions we hold.

The Group classifies securities by the nature of the collateral (prime, sub-prime, Alt-A, commercial, etc.) and the seniority each security has in the capital structure (i.e. seniors, mezzanine, subordinate etc.), which in turn will be reflected in the transaction risk assessment. Risk Management monitors portfolio composition by capital structure and collateral type on a daily basis with subordinate exposure and each collateral type subject to separate risk limits. In addition, the internal risk methodology is designed such that risk charges are based on the place the particular security holds in the capital structure, the less senior the bond the higher the risk charges.

For re-securitization risk, the Group's risk management models take a 'look through' approach where they model the behavior of the underlying securities based on their own collateral and then transmit that to the re-securitized position. No additional risk factors are considered within the re-securitization portfolios in addition to those identified and measured within securitization risk.

With respect to both the wind-down corporate correlation trading portfolio and the on-going transactions the key risks that need to be managed includes default risk, counterparty credit risk, correlation risk and cross effects between spread and correlation. The impacts of liquidity risk for securitization products is embedded within the firm's historical simulation model through the incorporation of market data from stressed periods, and in the scenario framework through the calibration of price shocks to the same period.

Both correlation and first-to-default are valued using a correlation model which uses the market implied correlation and detailed market data such as constituent spread term structure and constituent recovery. The risks embedded in securitization and re-securitizations are similar and include spread risk, recovery risk, default risk and correlation risk. The risks for different seniority of tranches will be reflected in the tranche price sensitivities to each constituent in the pools. The complexity of the correlation portfolio's risk lies in the level of convexity and cross risk inherent, for example, the risks to large spread moves and the risks to spread and correlation moving together. The risk limit framework is carefully designed to address the key risks for the correlation trading portfolio.

Monitoring of changes in credit and market risk of securitization exposures

The Group has in place a comprehensive risk management process whereby the front office and Risk Management work together to monitor positions and position changes, portfolio structure and

trading activity and calculate a set of risk measures on a daily basis using risk sensitivities and loss modeling methodologies.
For the mortgage business the Group also uses monthly remittance reports (available from public sources) to get up to date information on collateral performance (delinquencies, defaults, pre-payment etc.).
The Group has implemented a Comprehensive Risk Measure model for its corporate correlation and first-to-default trading positions which incorporates a number of risk factors including hazard rate, default, migration and recovery rates, and correlation measures.
The Group has also put in place a set of limits for the purpose of managing the Group's risk appetite framework in relation to securitizations and re-securitizations. These limits will cover exposure measures, risk sensitivities, VaR and capital measures with the majority monitored on a daily basis. In addition within the Group's risk management framework an extensive scenario analysis framework is in place whereby all underlying risk factors are stressed to determine portfolio sensitivity.
Re-securitized products in the mortgage business go through the same risk management process but looking through the structures with the focus on the risk of the underlying securities or constituent names.

Risk mitigation
In addition to the strict exposure limits noted above, the Group uses a number of different risk mitigation approaches to manage risk appetite for its securitization and re-securitization exposures. Where true counterparty credit risk exposure is identified for a particular transaction, there is a requirement for it to be approved through normal credit risk management processes with collateral taken as required. The Group also may use various proxies including corporate single name and index hedges to mitigate the price and spread risks to which it is exposed. Hedging decisions are made by the trading desk based on current market conditions and will be made in consultation with Risk Management. Every trade has a trading mandate where unusual and material trades require approval under the Group's pre-trade approval governance process. International investment banks are the main counterparties to the hedges that are used across these business areas.
In the normal course of business, we may hold tranches which have a monoline guarantee. No benefit from these guarantees is currently included in the calculation of regulatory capital.

Affiliated entities
Funds affiliated with the Group may invest in securities issued by other vehicles sponsored by the Group that are engaged in securitization and re-securitization activities. These funds include mutual funds, fund of funds and private equity funds. Standards governing investments in affiliated funds and products have been adopted to address potential conflicts.

Securitization exposures purchased or retained – trading book

			On-balance sheet		Off-balance sheet	
	Traditional		Synthetic		Synthetic	
end of	Long	Short	Long	Short	Long	Short
6M14 (CHF million)						
CMBS	3,679	205	0	0	843	151
RMBS	5,969	92	0	0	31	49
CDO/CLO	1,179	0	24	224	0	101
Nth-to-default	0	0	0	0	115	1,206
Other ABS	732	0	207	0	0	0
Total	**11,559**	**297**	**231**	**224**	**989**	**1,507**
2013 (CHF million)						
CMBS	4,095	464	0	0	574	189
RMBS	5,588	73	0	0	71	155
CDO/CLO	1,628	0	0	0	7	1,560

Nth-to-default	0	0	0	0	41	1,198
Other ABS	692	0	522	0	0	0
Total	**12,003**	**537**	**522**	**0**	**693**	**3,102**

Outstanding exposures securitized by the Group - trading book

	Traditional		Synthetic		Total
end of	Sponsor[1]	Originator[1]	Sponsor[1]	Originator[1]	
6M14 (CHF million)					
CMBS	7,288	21,052	0	0	**28,340**
RMBS	1,808	71,126	0	0	**72,934**
Total	**9,096**	**92,178**	**0**	**0**	**101,274**
2013 (CHF million)					
CMBS	7,495	20,219	0	0	**27,714**
RMBS	2,350	69,601	0	0	**71,951**
Total	**9,845**	**89,820**	**0**	**0**	**99,665**

Amounts disclosed from January 1, 2010 onwards following the publication of the Pillar 3 requirements in 2009.

1

Where the Group is both the sponsor and sole originator, amount will only be shown under originator. Originator is defined as the entity that transfers collateral into an SPE, including third party collateral transferred into the SPE via the entity's balance sheet.

Outstanding exposures securitized in which the Group has retained interests - trading book

	Exposures securitized		Total
end of	Traditional	Synthetic	
6M14 (CHF million)			
CMBS	65,905	1,419	**67,324**
RMBS	74,106	1,177	**75,283**
CDO/CLO	11,785	2,431	**14,216**
Other ABS	969	0	**969**
Total	**152,765**	**5,027**	**157,792**
2013 (CHF million)			
CMBS			