CREDIT SUISSE GROUP AG
Form 6-K
August 29, 2016
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 29, 2016
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 29, 2016
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 6M16

Introduction

General

These Pillar 3 disclosures as of June 30, 2016 are based on the BIS Basel III framework as implemented by the revised Swiss Capital Adequacy Ordinance and required by Swiss Financial Market Supervisory Authority FINMA (FINMA) regulation. This document should be read in conjunction with the Credit Suisse Annual Report 2015 and the Credit Suisse 1Q16 and 2Q16 Financial Report, which includes important information on regulatory capital and risk management (specific references have been made herein to these documents).

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 136 to 178) in III – Treasury, Risk, Balance sheet and Off-balance sheet in the Credit Suisse Annual Report 2015 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 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 2015.

Regulatory development

On November 20, 2015, FINMA issued the revised circular on disclosure for banks. As the previous disclosure standards did not allow for a proper comparison of risk situations between banks, FINMA Circular 2016/01 “Disclosure – banks” has been updated to reflect enhanced international standards (see below). The revised disclosure standards have improved the information and decision-making tools for market participants and increased the comparability of institutions. The revised circular came into force on January 1, 2016, implementing the revised standards with which all Swiss banks must comply as of December 31, 2016. Their application will be determined by the size of the bank.

On January 28, 2015, the Basel Committee on Banking Supervision (BCBS) issued the final standard for the revised Pillar 3 disclosure requirements. The revised disclosure requirements will enable market participants to compare bank’s disclosure of risk-weighted assets. The revisions focus on improving the transparency of the internal model-based approaches that banks use to calculate minimum regulatory capital requirements. The revised requirements will be effective for the year-end 2016 financial reporting.

Location of disclosure

This report provides the Basel III Pillar 3 disclosures to the extent that these required Pillar 3 disclosures are not included in the Credit Suisse Annual Report 2015 and the Credit Suisse 2Q16 Financial Report.

The following table provides an overview of the location of the required Pillar 3 disclosures.

Location of disclosure

Pillar 3 requirements	Pillar 3 Report 6M16	Annual Report 2015 (and additionally in the 2Q16 Financial Report (FR) for quarterly updates)
Scope of application		
Top corporate entity	"Scope of application" (p. 4)	
Differences in basis of consolidation	Description of differences: "Principles of consolidation" (p. 4)	List of significant subsidiaries and associated entities: "Note 40 - Significant subsidiaries and

		equity method investments (p. 383 - 385) Changes in scope of consolidation: "Note 3 - Business developments" (p. 97) - 2Q16 FR
Restrictions on transfer of funds or regulatory capital	Overview: "Restrictions on transfer of funds or regulatory capital" (p. 4)	Detailed information: "Liquidity and funding management" (p. 106 - 113)
Capital deficiencies	"Capital deficiencies" (p. 4)	
Capital structure	"Capital structure under Basel III" (p. 5) "Swiss requirements" (p. 5 - 6)	

Location of disclosure (continued)

Pillar 3 requirements	Pillar 3 Report 6M16	Annual Report 2015 (and additionally in the 2Q16 Financial Report (FR) for quarterly updates)
Capital adequacy		
Group/Bank	"Description of regulatory approaches" (p. 6 - 10 "BIS capital metrics" (p. 11 - 12) "Swiss capital metrics" (p. 13 - 14)	
Significant subsidiaries	Refer to "Regulatory disclosures" under https://www.credit-suisse.com/regulatorydisclosures	
Risk management objectives and policies		
General description		"Risk management oversight" (p. 137 - 140) "Risk appetite framework" (p. 140 - 143) "Risk coverage and management" (p. 144 - 148)
Credit risk		
Credit risk management overview		"Credit risk" (p. 151 - 153)
Credit risk by asset classes		
Gross credit exposure, risk-weighted assets and capital requirement	"General" (p. 15 - 18)	
Portfolios subject to PD/LGD approach	"Portfolios subject to PD/LGD approach" (p. 18 - 23)	
Portfolios subject to standardized and supervisory risk weights approaches	"Portfolios subject to standardized and supervisory risk weights approaches" (p. 24)	
Credit risk mitigation used for A-IRB and standardized approaches	"Credit risk mitigation used for A-IRB and standardized approaches" (p. 24 - 25)	Netting: "Derivative instruments" (p. 174 - 176) "Note 1 - Summary of significant accounting policies" (p. 261 - 262) "Note 22 - Offsetting of financial assets and financial liabilities" (p. 116 - 119) - 2Q16 FR
Counterparty credit risk	"Counterparty credit risk" (p. 26 - 29)	Effect of a credit downgrade: "Credit ratings" (p. 53) - 2Q16 FR
		Impaired loans by industry distribution/industry distribution of charges and write-offs:

		"Note 17 - Loans, allowance for loan losses and credit quality" (p. 103 - 110) - 2Q16 FR
Securitization risk in the banking book	"Securitization risk in the banking book" (p. 30 - 34)	
Equity type securities in the banking book	"Equity type securities in the banking book" (p. 34 - 35)	
Market risk		
Market risk management overview	Quantitative disclosures: "General" (p. 36)	Qualitative disclosures: "Market risk" (p. 148 - 151)
Securitization risk in the trading book	"Securitization risk in the trading book" (p. 37 - 42)	
Interest rate risk in the banking book		
	Qualitative disclosures: "Interest rate risk in the banking book" (p. 44 - 45)	Quantitative disclosures: "Banking book" (p. 164 - 165)
Operational risk		
	Overview: "Operational risk" (p. 9 - 10)	Detailed information: "Operational risk" (p. 154 - 156)
Composition of capital		
Balance sheet under the regulatory scope of consolidation	"Balance sheet" (p. 46 - 47)	
Composition of capital	"Composition of capital" (p. 48 - 50)	
Capital instruments		
Main features template and full terms and conditions	Refer to "Regulatory disclosures" under https://www.credit-suisse.com/regulatorydisclosures	
Remuneration		
		"Compensation" (p. 217 - 248)
G-SIBs indicator		
	Refer to "Regulatory disclosures" under https://www.credit-suisse.com/regulatorydisclosures	

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 25 to 39) in I – Information on the company and to “Capital management” (pages 114 to 135) in III – Treasury, Risk, Balance sheet and Off-balance sheet in the Credit Suisse Annual Report 2015 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, commercial and certain real estate companies). Also, FINMA does not require consolidating 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. In addition, FINMA requires us to consolidate companies which form an economic unit with Credit Suisse or if Credit Suisse is obliged to provide compulsory financial support to a company. 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 and the Swiss Capital Adequacy Ordinance.

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.

Capital deficiencies

The Group’s subsidiaries which are not included in the regulatory consolidation did not report any capital deficiencies in 6M16.

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 the Model Risk Management team, an independent validation function, and regularly presented to and approved by the relevant oversight committee.

> Refer to “Risk management oversight” (pages 137 to 140), “Risk appetite framework” (pages 140 to 143) and “Risk coverage and management” (pages 144 to 148) in III – Treasury, Risk, Balance sheet and Off-balance sheet – Risk management in the Credit Suisse Annual Report 2015 for information on risk management oversight including risk culture, 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 43);

– Interest rate risk in the banking book (refer to section “Interest rate risk in the banking book” on pages 44 to 45); and

– Operational risk (refer to section “Capital” on pages 9 to 10).

Capital

Regulatory capital framework

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). Together with the related implementing ordinances, the legislation includes capital, liquidity, leverage and large exposure requirements and rules for emergency plans designated to maintain systemically relevant functions in the event of threatened insolvency. 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.

> Refer to "Capital management" (pages 114 to 135) in III – Treasury, Risk, Balance sheet and Off-balance sheet in the Credit Suisse Annual Report 2015 for further information.

Capital structure under Basel III

The BCBS, the standard setting committee within the Bank for International Settlements (BIS), 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 will be 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 55) in II – Treasury, risk, balance sheet and off-balance sheet – Capital management – Regulatory capital framework in the Credit Suisse 2Q16 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. Banks that do not maintain this buffer will be limited in their ability to pay dividends or make discretionary bonus payments or other earnings distributions.

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 (FSB) has identified us as a G-SIB and requires us to maintain a 1.5% progressive buffer.

CET1 capital is subject to certain regulatory deductions and other adjustments to common equity, including the deduction of deferred tax assets for tax-loss carry-forwards, goodwill and other intangible assets and investments in banking and finance entities.

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. In addition, instruments with an incentive to redeem prior to their stated maturity, if any, are phased out at their effective maturity date, generally the date of the first step-up coupon.

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 56) in II – Treasury, risk, balance sheet and off-balance sheet – Capital management – Regulatory capital framework in the Credit Suisse 2Q16 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 exposure) and the market share of our domestic systemically relevant business and is subject to potential capital rebates that may be granted by FINMA. Effective in 2016, FINMA set our progressive component requirement at 5.07% 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 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 increased the countercyclical buffer from 1% to 2%, effective June 30, 2014.

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.

> Refer to “Capital management” (pages 114 to 135) in III – Treasury, Risk, Balance sheet and Off-balance sheet in the Credit Suisse Annual Report 2015 and “Capital management” (pages 54 to 69) in II – Treasury, risk, balance sheet and off-balance sheet in the Credit Suisse 2Q16 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.

In May 2016, the Swiss Federal Council amended the Capital Adequacy Ordinance (CAO) applicable to Swiss banks. The amendment recalibrates and expands the existing “Too Big to Fail” regime in Switzerland. Under the amended regime, systemically important banks operating internationally, such as Credit Suisse, will be subject to two different minimum requirements for loss-absorbing capacity: G-SIBs must hold sufficient capital that absorbs current operating losses to ensure continuity of service (going concern requirement) and they must issue sufficient debt instruments to fund restructuring without recourse to public resources (gone concern requirement). The going concern and the gone concern capital requirements are consistent with the FSB’s total loss-absorbing capacity standard. The amended CAO came into effect on July 1, 2016, subject to phase-in and grandfathering provisions for certain outstanding instruments, and has to be fully applied by January 1, 2020.

> Refer to “Regulatory developments and proposals” (page 56) in II – Treasury, risk, balance sheet and off-balance sheet – Capital management in the Credit Suisse 2Q16 Financial Report for further information.

Description of regulatory approaches

The Basel framework describes a range of options for determining the capital requirements in order to provide banks and supervisors the ability to select approaches that are most appropriate for their operations and their financial market infrastructure. In general, Credit Suisse has adopted the most advanced approaches, which align with the way risk is internally managed and provide the greatest risk sensitivity. 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 businesses and the private, corporate and institutional banking businesses. The remaining credit risk by asset class is with retail counterparties and mostly arises in the private, corporate and institutional banking businesses 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).

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, 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, corporate and institutional banking businesses loan portfolio, the LGD is primarily dependent upon the type and amount of collateral pledged. 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 expected 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 (IMM) 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

Credit Valuation Adjustment (CVA) is a regulatory capital charge 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 VaR and counterparty risk 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, 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. 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 trade 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 43 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) and Incremental Risk Charge (IRC). RNIV includes certain stressed RNIV. In 2014 Comprehensive Risk Measure was discontinued due to the small size of the correlation trading portfolio. We now use the standard rules for this portfolio.

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, 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 the Model Risk Management team in accordance with the firms validation umbrella policy and Risk Model Validation Sub-Policy for IRC.

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 2014, we introduced an enhanced internal model that incorporated recent developments regarding operational risk measurement methodology and associated regulatory guidance. FINMA approved the revised model 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. 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. This includes the new insurance policy that has been designed to align with the operational risk profile of the firm.

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. The AMA capital requirement is allocated to businesses using a risk-sensitive approach that is designed to be forward looking and incentivize appropriate risk management behaviors.

In 2015, we made enhancements to the modelling approach including improvements to the treatment of litigation-related losses. Although past litigation losses and litigation-related provisions were incorporated in the model, for FINMA regulatory capital purposes an add-on was previously used to capture the aggregate range of reasonably possible litigation-related losses that are

disclosed in our financial statements but are not covered by existing provisions. These reasonably possible losses are now fully captured within the model using an analytical approach and the add-on has therefore been removed with FINMA approval. We also made enhancements to further align the operational risk scenarios with other key components of the operational risk framework as well as to ensure consistency with the stress scenario framework developed for enterprise-wide risk management purposes.

> Refer to “Operational risk” (pages 154 to 156) in III – Treasury, Risk, Balance sheet and Off-balance sheet – Risk management in the Credit Suisse Annual Report 2015 for information on operational risk.

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 57 to 58) in II – Treasury, risk, balance sheet and off-balance sheet – Capital management in the Credit Suisse 1Q16 Financial Report and “Risk-weighted assets” (pages 59 to 61) in II – Treasury, risk, balance sheet and off-balance sheet – Capital management in the Credit Suisse 2Q16 Financial Report for information on risk-weighted assets movements in 6M16.

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

end of	6M16		2015	
	Risk-weighted assets	Capital requirement[1]	Risk-weighted assets	Capital requirement[1]
CHF million				
Credit risk				