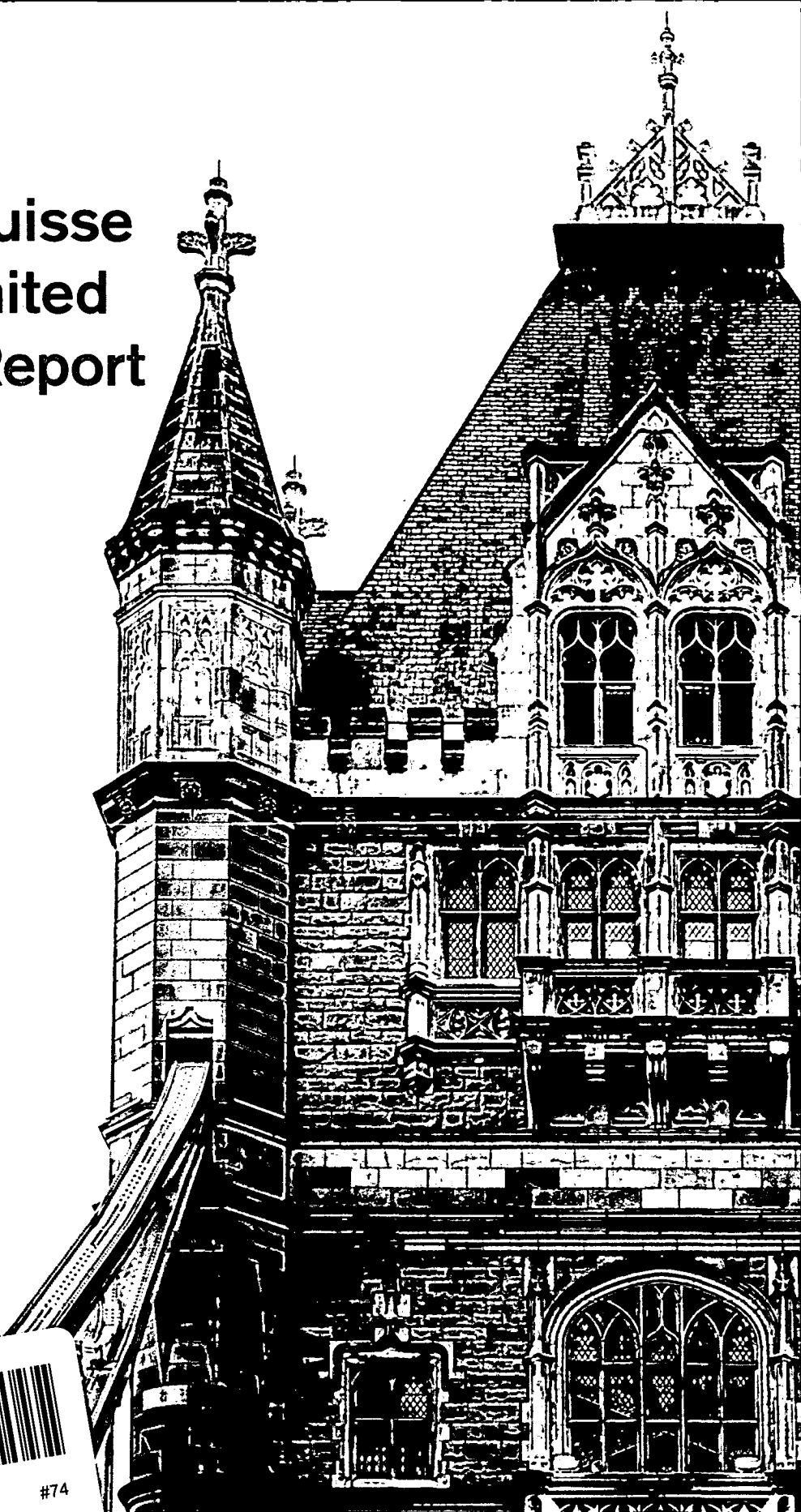


Credit Suisse (UK) Limited Annual Report 2016



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Strategic report for the year ended 31 December 2016

Board of Directors as at 12 April 2017

Michael A. Bussey (Independent Non-Executive Chairman)
Philip Brewster (Independent Non-Executive)
Emma Crystal (Non-Executive)
Jason Forrester (Non-Executive)
Philip Harris (Chief Executive Officer)
Ian Hale
Maura Sullivan
Simon Politzer

Company Secretary

Paul E. Hare

Company Registration Number	2009520
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Strategic report for the year ended 31 December 2016

The Directors present their Annual Report and the Financial Statements for the year ended 31 December 2016.

Profile

Credit Suisse (UK) Limited (the 'Bank' and 'CSUK') is a bank domiciled in the United Kingdom. The Financial Statements are presented in Great British Pounds ('GBP'), which is the functional currency of the Bank and in accordance with International Financial Reporting Standards as adopted by EU (adopted 'IFRS').

The Bank is authorised in the United Kingdom by the Prudential Regulation Authority ('PRA') and regulated by the Financial Conduct Authority ('FCA') and the PRA. Its principal activities are the provision of advice relating to advisory and discretionary investment services, banking services including secured lending facilities and financial planning advice. The product offering includes cash solutions, bond and equity products, advisory and discretionary hedge fund portfolios, structured products, tax efficient products, treasury, credit and other investment consulting solutions.

CSUK is a wholly (partly indirectly) owned subsidiary of Credit Suisse AG and an indirect subsidiary of Credit Suisse Group AG ('CSG'). CSG, a company domiciled in Switzerland, is the ultimate parent of a worldwide group of companies (collectively referred to as the 'CS group'). CSG prepares Financial Statements under US Generally Accepted Accounting Principles ('US GAAP'). These accounts are publicly available and can be found at www.credit-suisse.com.

As a leading financial services provider, CS group is committed to delivering its combined financial experience and expertise to corporate, institutional and government clients and high-net-worth individuals worldwide, as well as to retail clients in Switzerland. CS group serves its diverse clients through three regionally focused divisions: Swiss Universal Bank, International Wealth Management ('IWM') and Asia Pacific. These regional businesses are supported by two divisions specialising in investment banking capabilities: Global Markets and Investment Banking & Capital Markets. These business divisions co-operate closely to provide holistic financial solutions, including innovative products and specially tailored advice. Founded in 1856, CS group has a truly global reach today, with operations in over 50 countries and a team of more than 47,170 employees from approximately 150 different nations.

CSUK's business is managed as part of the IWM division. Through this IWM division, CS group offers a wide range of financial solutions to private, corporate and institutional clients. The IWM division comprises the Wealth Management Clients, Corporate & Institutional Clients and Asset Management businesses. Wealth Management Client business, which CSUK is part of, serves high net worth and ultra-high-net-worth individuals around the globe and private clients in Switzerland. Its Corporate & Institutional Clients business serves the needs of corporations and institutional clients, mainly in Switzerland. The Asset Management business offers a wide range of investment products and solutions across asset classes and all investment styles, serving governments, institutions, corporations and individuals worldwide.

Management and Governance

The Board of Directors ('Board') is responsible for governance arrangements that ensure effective and prudent management of CSUK, including the segregation of duties and the prevention of conflicts of interest. The Board approves and oversees the implementation of strategic objectives, risk strategy and internal governance; ensures the integrity of the accounting and financial reporting systems; oversees disclosure and communications processes; provides effective oversight of senior management; and assesses the effectiveness of governance arrangements.

Board Changes

A number of management and governance changes have been effected following the 2016 year-end. Emma Crystal and Jason Forrester have been appointed as Non-Executive Directors.

The requirements of the PRA & FCA Senior Managers & Certification Regime ('SMCR') were implemented in CSUK with effect from 07 March 2016. The SMCR framework seeks to increase individual accountability and enhance culture in Financial Services through: mandating the clear allocation of all activities, business areas and management functions of the in-scope legal entities to a small number of Senior Managers who are approved by the UK Regulators; identifying a set of functions that can expose the in-scope legal entities to risk through their day-to-day activities and requiring that the staff performing these functions are captured as Certified Staff and confirmed annually as 'Fit & Proper'; and implementing and enforcing a set of Conduct Rules that reflect the core standards expected of our staff. The implementation of SMCR in

Strategic report for the year ended 31 December 2016

CSUK is aligned with, and builds on, the significant progress that has been made over the past three years in developing CSUK's governance.

Economic environment

During 2016 the financial markets were considerably volatile and experienced further heightened uncertainty caused by a number of political developments. The UK's decision to leave the European Union post the referendum in June 2016 and the US presidential election result in November 2016 were key driving factors behind financial market moves globally.

In 2016 economic activity was generally robust in developed economies with inflation remaining at low levels. Global equity markets increased and volatility remained subdued. Government bond yields were mixed and remained at low levels. The US dollar strengthened against the euro and Swiss franc. After a somewhat slow start to the year, the US economy reaccelerated during the course of 2016 with private consumption remaining one of the main drivers of growth. In the Eurozone, the economic recovery also continued and core inflation stabilized at subdued levels. Despite the outcome of the UK referendum on EU membership, the British economy continued to expand. The weakest major currency in 2016 compared to the US dollar was the British pound, which significantly depreciated after the outcome of the UK referendum on EU membership in June.

Key performance indicators ('KPIs')

The Bank uses a range of KPI's (incorporating financial performance, capital and liquidity) which are listed below to manage the financial position of the Bank. In a changing regulatory environment and with the increasing cost of capital these KPIs are critical to the successful management of the business to achieve the Bank's objectives.

	2016	2015
Earnings and Profitability		
Net profit / (loss) after tax (£m)	(0.4)	13.5
Capital		
Risk Weighted Assets (£m)	888.8	1,405.9
Tier 1 capital (£m)	185.5	182.8
Return on Tier 1 capital	(0.2)%	7.4%
Liquidity		
Liquidity Buffer (£m)	861.3	857.4
Statement of Financial Position		
Total Assets (£m)	2,946	2,637
Total Asset Growth/(reduction)	11.7%	6.8%
Return on Total Assets	(0.01)%	0.5%
Asset under Management (£m)	10,783	9,223
Net New Assets (£m)	(71)	307

Performance

Statement of Income

The Bank reported a net loss after tax for the year ended 31 December 2016 amounting to £0.4m (2015: net profit £13.5m). While the business performance showed significant growth in net interest income, expenses included further litigation provisions and additional shared infrastructure costs from CS group.

Statement of Financial Position

As at 31 December 2016, the Bank had total assets of £2,946m (2015: £2,637m). The increase was primarily driven by continued growth in lending and deposit taking. Total shareholders' equity as at 31 December 2016 remained stable at £208.5m (2015: £208.6m).

Strategic report for the year ended 31 December 2016

The Bank has incurred substantial taxes in the UK during 2016; including Bank Levy of £1.6m (2015: £1.9m), employer's social security of £4.6m (2015: £5.2m) and irrecoverable UK value added tax ('VAT') of £1.4m (2015: £1.0m). The Bank has suffered irrecoverable withholding tax of £Nil (2015: £0.2m) in Switzerland. However, as disclosed in Note 34 – Country-by-Country Reporting, CSUK has not paid corporation tax in the UK (2015: £Nil) as taxable profits were fully offset by group relief.

Principal Risks and Uncertainties

The Bank faces a variety of risks that are substantial and inherent in its businesses including Market risk, Liquidity risk, Currency risk, Credit risk, Country risk, Legal and Regulatory risk, Operational risk, Conduct risk, and Reputational risk. These are detailed in Note 31 – Financial Instruments Risk Position.

There have been significant changes in the way large financial services institutions are regulated over recent years. There are increased prudential requirements as well as stricter regulations on the financial institutions in general and many of the reforms being discussed in wider forums will change the way in which the financial services industry is structured affecting the Bank's business model.

Outlook

CSUK remains focused on continuing to strengthen its position in executing a client-focused, capital-efficient strategy to meet emerging client needs and regulatory trends. CSUK is progressing towards achieving specific goals to grow its client base as well as Assets under Management, right size its cost base and strengthen its capital position, and has operated under the Basel III capital framework, as implemented in the EU, since January 2014.

In 2016 CSUK developed and launched a new product offering aimed at driving business growth in three major areas: advisory solutions, discretionary mandates and trading services. Commencing November 2016, CSUK has been offering the new services and related contractual terms and conditions to all new clients. Existing clients will be migrated into the new offering during the first half of 2017.

In addition, a global cost reduction strategy is underway and as a result the London campus and headcount are expected to reduce, having a direct impact on the cost base of the Bank.

During 2017 critical services provided by corporate functions will move into a separate legal vehicle as part of the global Too-Big-To-Fail legislation, where major banks are required to prepare and implement Recovery and Resolution Plans ('RRPs'). The resolution part of the RRP must demonstrate that a bank or a company can be wound down in an orderly fashion, while supporting the continuation of systemically-important functions in the event of the Bank's impending insolvency. In the UK, the Bank has begun the process of establishing Credit Suisse Services AG, London Branch as the local service company. This is a branch of Credit Suisse Services AG (the Service Company parent entity) which was established in Switzerland. The new Service Company will house the employees, contracts and assets required to perform services that are deemed resolution-critical and which support multiple Material Legal Entities on a cross-border basis.

CSUK continues to adapt to a challenging market environment and compete in its chosen business and markets around the world. CSUK continues to be committed to offering a broad spectrum of products and is focused on businesses in which the Bank has a competitive advantage and is able to operate profitably with an attractive return on capital.

UK Referendum

On 23rd June 2016, voters in the UK voted to leave the European Union ('EU') in a non-binding referendum. Among the significant global implications of the referendum is the increased uncertainty concerning a potentially more persistent and widespread imposition by central banks of negative interest rate policies, caused by general political uncertainty. The European Central Bank ('ECB') and others have already introduced negative interest rates to address deflationary concerns and to prevent appreciation of their respective currencies. The Bank of England ('BOE') announced a cut to its bank rate of 25 basis points to 0.25% and introduced a package of measures designed to provide additional monetary stimulus.

CSUK is exploring solutions to various outcomes, post triggering Article 50 in March 2017 including a Hard Brexit, and is refining the in-depth analysis and looking at ways to optimise the current infrastructure, including options for accessing EU

Strategic report for the year ended 31 December 2016

clients and markets and leveraging the existing EU presence where appropriate. CSUK already provides a comprehensive range of services to clients through both our London operations and a number of Group affiliates across the Continent. This provides CSUK with the flexibility to respond to potential changes in the UK and EU financial services industry in the future.

The UK's unexpected decision to leave the European Union was followed by an initial period of market volatility and a longer term fall in the value of sterling. While there have been no instances of counterparty distress in the CSUK portfolio following the referendum, CSUK adjusted down the Loan-to-Value ratio requirements on a number of loans in the residential real estate book. This reflects the expected difficulties of the exit negotiations now that Article 50 is activated and lower economic growth forecasts. However, rating strength remains underpinned by the country's wealthy and diversified economy, high institutional strength, as well as a flexible monetary and fiscal policy that should ensure some resilience against the expected challenges over the next two years. Credit Risk Management continues to assess its risk to further sterling weakening through GBP-focused scenarios.

Regulatory Market Changes

CSUK Limited continues to implement the regulatory requirements for Markets in Financial Instruments Directive ('MIFID II'). The requirements are far-ranging, from increased transparency and investor protection for clients to expanded transaction reporting to the FCA and additional client reports. In total, CSUK is operating 10 work streams with 40 underlying sub-work streams to implement MIFID II changes by 3 January 2018.

Along with MIFID II, CSUK Limited is currently implementing circa 20 new or amended regulations, including US Foreign Account Tax Compliance Act ('FATCA'), Automatic Exchange of Information ('AEOI'), and European Market Infrastructure Regulation ('EMIR'). EMIR will require intra-group margining between CSUK and CSAG as well as margining requirements between CSUK and their financial counterparty clients. Intra-group margining will need to be in place by July 2017 with client margining due by January 2018. CSUK is currently assessing the impact of increased liquidity requirements to fund the intra-group margin requirements.

Litigation

The risks in relation to litigation are set out in Note 21 – Provisions and 35 – Contingent Liabilities.

Liquidity

The Bank's Liquidity position is managed in accordance with Liquidity Risk Metrics set both externally and internally. The Liquidity Coverage Ratio ('LCR'), as defined by the PRA based on recommendations by the Basel Committee on Banking Supervision, ensures adequate unencumbered High Quality Liquid Assets ('HQLA') that can easily be converted to cash to meet liquidity needs for a 30 day liquidity stress scenario. The Basel III Net Stable Funding Ratio ('NSFR') is a 1 year structural ratio ensuring a funding profile providing sufficient long-term stable funding in relation to the composition of its assets and off-balance sheet activities.

The CS group considers a strong and efficient liquidity position to be a priority. The liquidity position is monitored in accordance with all metrics, taking account of the current regulatory regime and any forthcoming changes to the regulatory framework or to the Bank's business strategy. The CS group continues to provide confirmation that it will provide sufficient funding to CSUK to ensure that it maintains a sound financial situation and is in a position to meet its debt obligations.

Significant Accounting Developments

The Bank will adopt the IFRS 9 Financial Instruments accounting standard on 1 January 2018. In July 2014, The IASB (International Accounting Standards Board) published the final version of IFRS 9, which replaces the existing guidance in IAS 39 Financial Instruments Recognition and Measurement. The standard includes amended guidance for classification and measurement of financial instruments, new hedging guidance and a new impairment model which will result in earlier recognition of losses. IFRS 9 also requires extensive new disclosures as well as the revision of current disclosure requirements under IFRS 7 Financial Instruments: Disclosures.

The impairment guidance included within IFRS 9 replaces the current incurred loss model with an expected loss model which is based on changes in credit quality since initial recognition. IFRS 9 applies one classification approach for all types

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of financial assets, based on the business model within which financial assets are managed, and their contractual cash flow characteristics (whether the cash flows represent 'solely payments of principal and interest').

IFRS 15 Revenue from Contracts with Customers was issued in May 2014 and establishes a single, comprehensive framework for revenue recognition. The core principle of IFRS 15 is that an entity will recognise revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. IFRS 15 also includes disclosure requirements to enable users of financial statements to understand the nature, amount, timing and uncertainty of revenue and cash flows arising from contracts with customers. IFRS 15 is effective for annual reporting periods beginning on or after 1 January 2018.

CS group has established a cross-functional implementation team and governance structure for the project to implement IFRS 15. For further information on the guidance in IFRS 9 and IFRS 15, as well as the implementation status for the CSUK, please refer to the 'Standards and Interpretations endorsed by the EU and not yet effective' section in Note 2 – Significant accounting policies.

Capital resources

The Bank closely monitors its capital and liquidity position on a continuing basis to ensure ongoing stability and support of its business activities. This monitoring takes account of the requirements of the current regime and any forthcoming changes to the capital framework. CS group continues to provide confirmation that it will ensure that the Bank is able to meet its debt obligations and maintain a sound financial position for the foreseeable future. During the period, no additional capital contribution was received.

The Bank is required at all times to monitor and demonstrate compliance with the relevant regulatory capital requirements of the PRA. The Bank has put in place processes and controls to monitor and manage the Bank's capital adequacy. No breaches were reported to the PRA during the year. Capital structure during 2016 is set out in Note 23 –Share Capital and Share Premium.

Pillar 3 disclosures required under Capital Requirement Regulation ('CRR') for CSUK can be found separately at www.credit-suisse.com.

Internal Control and Financial Reporting**Board Responsibility**

The Directors are ultimately responsible for the effectiveness of internal controls within CSUK. Procedures have been designed for safeguarding assets; for maintaining proper accounting records; and for assuring the reliability of financial information used within the business. Such procedures are designed to manage rather than eliminate the risk of failure to achieve business objectives and can only provide reasonable and not absolute assurance against material misstatement, errors, losses or fraud.

The key procedures that have been established for the ongoing identification, evaluation and management of the significant risks faced by the Bank have been in place throughout the year and up to 12 April 2017, the date of approval of the CSUK Annual Report for 2016.

Key risks are formally reviewed and assessed at least once a year by the Board, in addition to which key business risks are identified, evaluated and managed by operating management on an ongoing basis by means of procedures such as credit, market, operational and other authorisation limits, and segregation of duties.

The Board also receives regular reports on any risk matters that need to be brought to its attention. Significant risks identified in connection with the development of new activities are subject to consideration by the Board.

There are established budgeting procedures in place and reports are presented regularly to the Board detailing the performance of the Bank, variances against budget and prior year as well as other performance data.

The Board's primary functions and types of decisions taken by the Board, subject where appropriate to Board Committee delegation, are:

Strategic report for the year ended 31 December 2016

Strategy and Management

- As a subsidiary of the Credit Suisse AG Group, CSUK is responsible for setting local strategy and overseeing the management of CSUK in line with the global or divisional strategy of the Credit Suisse AG Group;
- The CSUK Board and each Board Director must act in good faith in the best interests of CSUK, exercise independent judgment and consider and avoid conflicts of interest where possible. Acting in CSUK's best interests may, as the case may be, include the best interests of the parent company and of the Credit Suisse group of companies;
- The Board and each Board Director should, in the event of any conflicts of interest arising in the Board decision making process, declare such conflicts and ensure that they are appropriately managed;
- It is expected that a Board Director who has identified and declared a conflict of interest would need to recuse him or herself from participating in the Board decisions relating to the matter giving rise to the conflict of interest. Where the conflict arises as a result of a Board Director's involvement with, or role for, another Credit Suisse group company (for example, where a Board Director is also a director of the parent company or a member of the parent company's Executive Board), it may alternatively be possible for the conflict to be appropriately managed by the relevant Director instead recusing him or herself from decision making at the parent company level;
- Ensure arrangements are made for the fulfilment of CSUK statutory duties;
- Ensure CSUK operates within regulatory guidelines;
- Manage CSUK business within the overall business framework of the Credit Suisse AG Group with delegating specific powers to board committees or to other bodies as appropriate;
- Ensure that group policies applicable to CSUK are in accordance with the law and with regulatory requirements / guidelines, appropriate for the entity and are being properly implemented at the entity level;
- Ensure that CSUK subsidiaries / branches are being adequately controlled and appropriately governed;
- Provides direction for management;
- Review and consider the application of the business strategy as recommended by executive management as far as it relates to CSUK, ensuring that it does not expose CSUK to unacceptable risk;
- Review CSUK performance, and monitor execution of business strategy as far as it is relates to CSUK;
- Ensure that CSUK has adequate financial resources to meet its objectives and effectively manage risk;
- Review and consider material new business proposals;
- Review and consider standard reporting, including entity financials (full breakdown by lines of business and existing data on remote booking), market and credit risk exposures, capital, liquidity and funding;
- Review and consider material internal control, regulatory, legal and compliance issues, including the report by the Audit and Risk committees; and
- Review and consider risk limits or exceptions.

Culture

- Review and consider initiatives to support and monitor an appropriate culture in the business areas relevant to CSUK;
- Review the decisions made by the CSUK EXCO relating to the registration and de-registration of Senior Managers that are not members of the Board; and
- Ensure that HR policies and procedures are in accordance with the law and regulatory requirements / guidelines and are appropriate, ensuring that they do not expose CSUK to unacceptable risk and are properly implemented at an entity level.

Risk Management

- Review and approve the risk policies and risk appetite for CSUK, including through the approval of risk limits for CSUK;
- Review CSUK's material credit and market risk exposures;
- Review CSUK's liquidity and liability management;
- Ensure capital is sufficient to meet regulatory and business needs; and
- Consider and assess the systems and controls in relation to the incurring of risk on behalf of CSUK so as to ensure a reasonable level of assurance that the level of risk that CSUK will incur is consistent with that which the Board considers it prudent for CSUK to take.

Financial Reporting and Internal Control

- Review and approve Annual Financial Statements, including the Directors' Report;

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- Review and approve the annual business plan;
- Review and approve the control framework for all business booked into the entity;
- Review and consider the control framework for all functions that support the business of CSUK (including, in the case of outsourced or deployed functions, being satisfied that appropriate contractual and service level agreements are in place);
- The Board will delegate execution of certain respective audit duties to the Audit Committee, and will consider the report by the Audit Committee, four times per year;
- The Board will delegate execution of certain respective risk duties to the Risk Committee, and will consider the report by the Risk Committee, four times per year;
- The Board will monitor the effectiveness and independence of its Committees and will ensure that its Committees are able to use any forms of resources they deem appropriate, including external advice;
- Consider reports and issues relating to entity financials (full breakdown by lines of business and existing data on remote booking), market and credit risk exposures, capital, liquidity and funding, internal control, regulatory, legal or compliance escalated from Divisional committees, Board sub-committees or other relevant committees; and
- Consider the adequacy of management information.

Escalation

- Consider escalation by the Board of any significant issues to the Credit Suisse AG Management and/or its committees; and
- Consider the limits on the authority of the committees to which authority has been delegated by the Board and the guidance to be given in exercising the authority delegated by the Board.

Board Evaluation

Each year, the Board undertakes a formal, rigorous Board Evaluation against the responsibilities listed in its Terms of Reference and the Board's objectives to assess Board and Audit and Risk Committee effectiveness and to evaluate and decide on future objectives, and focus topics and work plan for the coming year, in light of the Group Strategy and structure, and to identify internal briefings / training and professional development required by individual Directors in the coming years. The Evaluation also assists the Board Nomination Committee to assess the structure, size, composition and performance of the Board, and knowledge, skills, experience and diversity of Board members and Board succession planning and Board member appointments. From time to time, the Board may also mandate an external advisor to facilitate the evaluation process; usually the evaluation is internal for two years and external for every third year.

The annual 2016 Board Evaluation was externally facilitated by Manchester Square Partners, and has reviewed the Board performance by discussions and pre-interviews, questionnaires, board observation and formal interviews, focusing on strategy, challenges and risks, values and culture, role, dynamics, engagement, structure, composition, succession, governance, execution and leadership. The directors have also been asked to comment on communication between Group and the Board and director role conflicts.

It was concluded that the Board was effective and Board Director performance was satisfactory in 2016. The Board agreed its 2017 Objectives.

Board Training

In addition to Board Evaluation and Board Director Induction, Board Directors undertook ongoing internal briefings and training, which were tailored to Board objectives and to decisions to be taken by the Board, and an external Board governance course on professional development.

Board Meetings

Nine Board meetings were held in 2016. All members of the Board are expected to spend the necessary time outside of these meetings needed to discharge their responsibilities appropriately. The Chair calls the meetings with sufficient notice and prepares an agenda for each meeting. The Chair has the discretion to invite members of management or others to attend the meetings. The Board also holds separate private sessions without management present.

Meeting attendance

Minutes are kept of the proceedings and resolutions of the Board. The members of the Board are encouraged to attend all

Strategic report for the year ended 31 December 2016

meetings of the Board and the committees on which they serve.

Meeting attendance

	Board of Directors	Audit Committee	Risk Committee	Remuneration and Nominations Committee
in 2016				
Total number of meetings held	9	5	5	4
Number of members who missed no meetings	6	2	2	2
Number of members who missed one meeting	0	0	0	0
Number of members who missed two or more meetings	0	0	0	0
Meeting attendance, in %	100	100	100	100

1. The Board consisted of 6 members as of the beginning of the year and at the end of the year.

2. The Audit/Risk/ Remuneration and Nominations Committee consisted of 2 members as of the beginning of the year and at the end of the year.

Committees

Certain responsibilities are delegated to Board Committees, which assist the Board in carrying out its functions and ensure that there is independent oversight of internal control and risk management. The Chair of each Board Committee reports to the Board on the matters discussed at Committee meetings.

CSUK Audit Committee

The Audit Committee's primary function is to assist the Board of Directors ('Board') in fulfilling its financial oversight responsibilities defined by law, articles of association and internal regulations by:

- Reviewing the Internal Audit Plan to ensure its adequacy, as it pertains to CSUK;
- Monitoring and assessing the overall integrity of the financial statements and the disclosures of the financial condition, results of operations and cash flows of CSUK;
- Monitoring the adequacy and integrity of the financial accounting and reporting processes and the effectiveness of internal quality controls and risk management systems regarding CSUK's financial reporting;
- Recommending the appointment of CSUK's External Auditors and overseeing the procedure for selection;
- Reviewing the External Auditor's Plan to ensure its adequacy, as it pertains to CSUK;
- Monitoring the qualifications, independence and performance of the External Auditor, including the suitability of the External Auditor's provision (if any) of non-audit services to CSUK;
- Reviewing reports on systems of accounting, internal controls and risk management systems, and compliance with regulatory and legal requirements, and on litigation;
- Reviewing accounting and valuation policy changes and issues and tax policies, risks and issues;
- Reviewing reports on quality and accuracy of financial reporting to external bodies;
- Monitoring the adequacy of the management of operational risks, jointly with the Risk Committee, including assessing the effectiveness of internal controls that go beyond the area of financial reporting;
- Monitoring the adequacy of the management of reputational risks, jointly with the Risk Committee;
- Reviewing and assessing the integrity, independence and effectiveness of CSUK's policies and procedures on whistleblowing, including those policies and procedures intended to protect whistle-blowers from being victimised because they have disclosed reportable concerns;
- Reviewing other Internal Audit reports, regulatory examination reports and External Audit reports and management letters;
- Monitoring the statutory audit of CSUK's annual financial statements, in particular its performance, taking into account any findings and conclusions by the competent authority;

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- Reviewing the Annual Financial Statements on behalf of the Board and, if appropriate, recommending to the Board for approval;
- Reporting significant issues to the Board; and
- Reporting to the Board on the outcome of the statutory audit and explain how the statutory audit contributed to the integrity of financial reporting and what the role of the Audit Committee was in that process.

In reviewing the Credit Suisse UK Limited Annual Report 2016, the Audit Committee considered critical accounting estimates and judgements including the valuation of Level 3 assets and liabilities, and the recoverability of the deferred tax asset. The Audit Committee additionally considered the projected capital requirements in the next 12 months and, in this context, the continued access to appropriate funding to maintain adequate capital and liquidity positions.

The Audit Committee members are Philip Brewster (Chair) and Mike Bussey.

CSUK Risk Committee

The Risk Committee's primary function is to assist the Board of Directors ('Board') in fulfilling its risk management responsibilities as defined by applicable law and regulations as well as CSUK articles of association and internal regulations by periodically:

- Providing advice to the Board on CSUK's overall current and future risk appetite and assist the Board in overseeing the implementation of that strategy by management;
- Reviewing and approving the strategies and policies for taking on, managing, monitoring and mitigating the risks the firm is or might be exposed to, including those posed by the macroeconomic environment in which it operates in relation to the status of the business cycle;
- Reviewing and assessing the independence, integrity and adequacy of the risk management framework and functions of CSUK, in particular as it relates to operational, credit, and liquidity & funding risks;
- Reviewing and assessing the adequacy of CSUK's capital (regulatory) and its allocation to the CSUK's businesses;
- Reviewing the Internal Capital Adequacy Assessment Process (ICAAP) in conjunction with the ALM CARMC and provide input into the range of scenarios and analyses that management should consider;
- Reviewing certain risk limits and regular risk reports including Risk Appetite and make recommendations to the Board;
- Reviewing, assessing and challenging the adequacy of the management of all risks (including but not limited to conduct, reputational, credit, operational, market, liquidity and funding risks);
- Reviewing and assessing the independence, integrity and adequacy of the compliance function of CSUK in particular as it relates to the detection and monitoring of any risk that CSUK may fail to comply with applicable regulatory requirements and/or the risk that CSUK may be used to further financial crime; and
- Reviewing CSUK's policy in respect of corporate responsibility and sustainable development.

The Risk Committee members are Philip Brewster (Chair), Mike Bussey and Jason Forrester.

CSUK Remuneration & Nominations Committee

The Remuneration & Nominations Committee's primary functions and types of decisions taken by the Remuneration & Nominations Committee are:

For remuneration purposes:

- To advise the Credit Suisse Group AG (Group) Compensation Committee (CC) in respect of matters relating to remuneration for the employees of CSUK including members of the CSUK ExCo, Code Staff and Material Risk Takers.

For nominations purposes:

- To identify and recommend for approval to fill Board vacancies, ensure that the committee is able to use any forms of resources the Nominations Committee deems appropriate, including external advice; and ensure that the committee receives appropriate funding.

The Remuneration & Nominations Committee members are Mike Bussey (Chair) and Philip Brewster.

Board Diversity Policy

Strategic report for the year ended 31 December 2016

CSUK recognises and embraces the benefits of building a diverse and inclusive culture and having a diverse board. The Board Diversity Policy sets out the approach to diversity on the Board of Directors. A diverse Board will include and make good use of differences in the skills, regional and industry experience, independence and knowledge, background, race, gender and other distinctions between Directors. The Committee will consider these differences in determining the optimum composition of the Board and when possible will be balanced appropriately. At the date of adoption of this Policy, the Board set a target to ensure that at least 25 per cent female representations on the Board to be achieved by the end of 2016. The Board will continue to monitor its target in 2017 through periodic reviews of structure, size, composition and performance of the Board.

The aforementioned Board responsibilities and Board committees comply with the requirements defined in the PRA handbook for 'General Organisational Requirements', chapter 5 (Management Body).

Risk Management**Overview**

The Bank's risk management framework is based on transparency, management accountability and independent oversight. Risk management plays an important role in the Bank's business planning process and is strongly supported by senior management and the Board of Directors. The primary objectives of risk management are to protect the Bank's financial strength and reputation, while ensuring that capital and liquidity are well deployed to support business activities and grow shareholder value. The Bank has implemented risk management processes and control systems and it works to limit the impact of negative developments by monitoring all relevant risks including credit, market, liquidity, operational and reputational risks, and managing concentrations of risks.

Risk governance

The prudent taking of risk in line with the Bank's strategic priorities is fundamental to its business as part of a leading global banking group. To meet the challenges in a fast changing industry with new market players and innovative and complex products, the Bank seeks to continuously strengthen the risk function, which is independent of but closely interacts with the businesses, to ensure the appropriate flow of information. Committees are implemented at a senior management level to support risk management.

Risk Management Committees

- CSUK Operational Risk & Compliance Committee: chaired by the Head of First Line of Defence Support ('FLDS') the Operational Risk & Compliance Committee is responsible for maintaining sound and robust operational risk management across CSUK by measuring and assessing key operational and compliance risks to CSUK. The committee also reviews conduct risk related matters including financial crime.
- CSUK Asset and Liability Management Capital Allocation and Risk Management Committee ('ALM CARMC'): chaired by the Chief Financial Officer ('CFO'), the ALM CARMC is responsible for monitoring and challenging the liquidity, capital, and balance sheet positions of CSUK as well as the systems and controls relating to capital and liquidity. In addition, the CSUK Funding Execution Committee ('FEC') is formed on activation of the CSUK crisis management plans and is responsible for ensuring that the CSUK adopts an appropriate response to significant liquidity and funding issues impacting the UK entities during periods of stress.
- CSUK Credit Committee: chaired by the Chief Risk Officer ('CRO'), the CSUK Credit Committee is responsible for approving, monitoring and controlling all credit exposures of CSUK and managing the risks associated with the loan portfolio, including reviewing, and monitoring adherence to, CSUK's Credit Policies and Credit Risk Appetite Framework.
- CSUK Product Approval Committee ('PAC'): chaired by the CRO, the PAC is responsible for reviewing, identifying and considering all matters relating to new investment products and services developed and/or offered for sale by CSUK as well as managing the risks associated with the CSUK product platform such as conduct risk, business risk and operational risk.

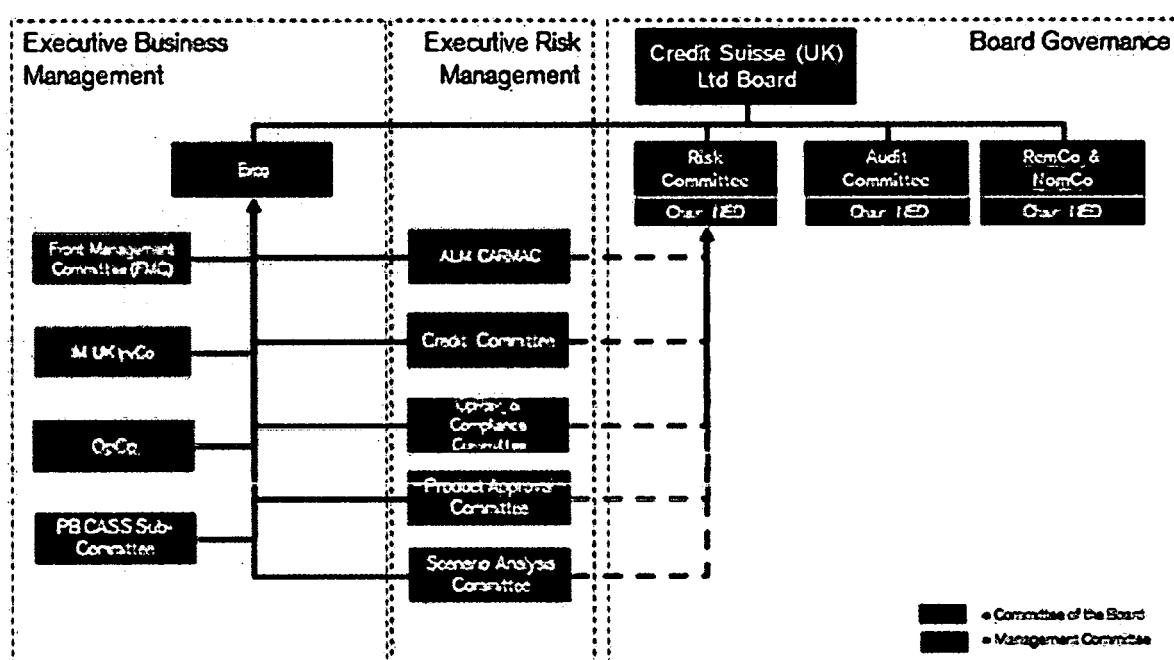
Strategic report for the year ended 31 December 2016

- Scenario Analysis Committee ('SAC'): chaired by the CRO, this committee discusses, reviews and approves stress testing model design, scenarios, methodology and results as per the entity's stress testing model. The committee also reviews independent model validations for CSUK stress testing.

Governance and Management Structure

CSUK's corporate governance policies and procedures are aligned with the CS Group policies. Other relevant corporate governance documents include the Articles of Association, the Organisational Guidelines and Regulations, the Charters of the Board of Directors, the Terms of Reference of each CSUK committee and the CS Group Code of Conduct. The CSUK governance and management structure is outlined in the following chart:

CS UK Governance and Management



Executive Management Committees

Management Committees support the Chief Executive Officer ('CEO') and Executive Directors in the implementation of strategy as set by the Board. The principal Management Committee is the CSUK Executive Committee:

- CSUK Executive Committee ('CSUK EXCO'): chaired by the CEO, the CSUK ExCo is ultimately responsible for the management of the CSUK business and the execution of the strategy set by the Board. As a decision making forum, it may receive proposals escalated from other executive committees or from business unit managers.

The CSUK ExCo has delegated a number of functions and responsibilities to the following business management committees:

- Front Management Committee: chaired by the CEO, this committee is responsible for reviewing front office related activities, reviewing financial performance by each business line, reviewing use of risk budget, monitoring and driving accountability for delivery of front office tasks.
- CSUK Operating Committee: chaired by the Chief Operating Officer, this committee is responsible for monitoring key projects within the business, including reviewing the impact of regulatory matters, business improvement initiatives, the performance of the Shared Services divisions, reviewing platform procedures and operational policies.

Strategic report for the year ended 31 December 2016

- PB UK Client Assets and Money ('CASS') Sub-Committee: (delegated responsibility from the Operating Committee): chaired by the Chief Operating Officer, this committee is responsible for monitoring compliance with the CASS rules and sets the strategic direction for ongoing compliance with the CASS regime. This includes defining and implementing CASS management strategies, ensuring adequate CASS oversight operations are in place and ensuring appropriate levels of resource and funding are in place to enable compliance.
- Investment Management UK Investment Committee ('IM UK InvCo'): chaired by the Head of Investment Management UK, this committee is responsible for setting the benchmark and investment policy of IM UK. It sets the framework for strategic asset allocation applicable to discretionary mandates for each type of investment profile offered by CSUK in light of current capital market assumptions.

Risk Organisation

Risks arise in all of the Bank's business activities and they are monitored and managed through its internal control environment. The Bank's risk management organisation reflects the specific nature of the various risks in order to ensure that risks are taken within limits set in a transparent and timely manner.

The Bank's independent risk management function is headed by the CSUK CRO, who reports jointly to the Bank's CEO and the Group IWM CRO. The CSUK CRO is responsible for overseeing the Bank's risk profile across all risk types and for ensuring that there is an adequate independent risk management function. The Bank has strengthened the risk management function to provide a more dedicated focus on the risks at the Bank level, in addition to the global risk management processes applied by CS group.

The CRO function comprises of:

- Market (Traded & Non Traded) & Liquidity Risk Management;
- Credit Risk Management;
- Operational Risk Management;
- Enterprise Risk Management; and
- Reputational Risk Management via the Reputational Risk Review Process.

The CSUK CRO is responsible for providing risk management oversight and establishing an organisational basis to manage all risk management matters through its primary risk functions:

- The Market and Liquidity Risk Management ('MRM') department is responsible for assessing and monitoring the market and liquidity risk profiles of the Bank and recommends corrective action where necessary;
- Credit Risk Management ('CRM') is responsible for approving credit limits, monitoring, and managing individual exposures, and assessing and managing the quality of credit portfolios and allowances;
- Operational Risk Management ('ORM') is responsible for the identification, assessment and monitoring of operational risks;
- Enterprise Risk Management ('ERM') is responsible for covering cross-business and cross-functional approaches towards identifying and measuring risks as well as defining and managing risk appetite levels; and
- Reputational Risk management ('RRM') is responsible for assessing actions or transactions which may pose a reputational risk to the Bank's reputation as escalated by both the
- First and Second Lines of Defence, providing independent appraisal and facilitating the calibration of such risks.

These areas form part of a matrix management structure with reporting lines into both the CSUK CRO and the relevant Global Risk Head. Furthermore, these departments are supported by a global infrastructure and data process which is maintained by the central, Risk and Finance Data and Reporting ('RFDAR') group.

Risk Thresholds

A sound system of risk thresholds is fundamental to effective risk management. Thresholds are defined by various stages of risk severity ranging from tolerances to limits. Each threshold has a stated escalation process to ensure transparency of any breaches. The thresholds define CSUK's risk appetite given management capabilities, the market environment, business strategy and financial resources available to absorb potential losses. The overall risk thresholds of the Bank are set by the Board of Directors.

Strategic report for the year ended 31 December 2016

Within the bounds of the overall risk appetite of the Company, as defined by the limits set by the Board, the CSUK CRO is the nominated executive who is responsible for implementing a risk threshold framework with the aim of ensuring that the risk profile remains within the Board's risk appetite.

Market risk limit measures are typically based on Value at Risk ('VaR') and scenario analysis, although they also include risk sensitivities, notionals and other metrics. Liquidity risk limits include regulatory and internal metrics based on computing liquidity inflows and outflows under stress scenarios over different time horizons. Credit risk limits include overall limits on portfolio credit quality and a system of individual counterparty, country, industry, product and scenario limits, which are used to mitigate concentration risks. These risk limits are generally set to ensure that any meaningful increase in risk exposures is promptly identified, analysed and, where necessary, escalated to more senior levels of management. In addition, the Company has allocated operational risk capital to the businesses and has established thresholds for operational risk losses that trigger additional management action. These thresholds are set in both quantitative (considering historical losses and gains) and qualitative (Company-wide statements linked to risk and control indicators) terms.

Some of these thresholds are monitored on a daily basis, though those for which the inherent calculation time is longer (such as some credit portfolio limits) are monitored on a weekly or monthly basis.

The Company's financial risk management objectives and policies and the exposure of the CSUK to market risk, credit risk, liquidity risk and currency risk are outlined in Note 31 – Financial Instruments Risk Position.

Corporate employee policy

CSUK adopts the CS group's policies which are committed to providing equal opportunities for all employees, irrespective of factors such as race, gender, sexual orientation, gender reassignment, religion or belief, age, marital or family status, or disability or any other characteristic protected by applicable law.

Internal experts work closely with the businesses across all regions to ensure that the diversity and inclusion strategy is firmly embedded in CSUK's corporate culture. Managers are advised on the planning and implementation of necessary internal structures and measures to ensure CSUK can offer an inclusive working environment that is free from discrimination and can take the specific needs of clients into account in CSUK product and service offering. Councils headed by senior leaders are responsible for ensuring that CSUK systematically strives to achieve the targets defined and appropriate measures are implemented.

CSUK is committed to ensuring it has an appropriate corporate culture, reflecting a focus on risk, ethics and values. The Bank believes having the right culture will deliver a number of other benefits including the opportunity to create a competitive advantage. Leveraging the CS group's corporate values, the UK Culture Program was set up to articulate the culture aspired to for CS in the UK and also to create the right environment for those who work here, encouraging individuals to behave consistently in line with these aspirations.

In December, in anticipation of the global launch of a set of new Conduct and Ethics Standards for the bank in 2017, new governance was implemented in the UK to manage the delivery of our Culture Program and the disciplinary process. As such, the UK Culture Steering Committee and the Disciplinary Review Committee became the UK Conduct and Ethics Board ('UK CEB').

The UK CEB has two related purposes:

- to establish a clearly articulated and strong corporate culture across the UK based on the global conduct and ethics standards; and
- to ensure disciplinary decisions for UK employees, and employees outside of the UK who are in the scope of the UK regulator, are fair, consistent and meet the expectations of the CS group CEB, UK CEB and the UK regulator.

With regards to disciplinary decisions the UK CEB:

- reviews the outcome of disciplinary cases on a quarterly retrospective basis (the "ex-post facto review") to assess fairness and consistency and meeting both internal and external expectations;
- considers the impact of a disciplinary sanction on compensation, rating and promotion eligibility;
- monitors the conduct and ethics trends in the UK;

Strategic report for the year ended 31 December 2016

- implements mitigating measures to ensure disciplinary infractions are not repeated in alignment with the Divisions/Corporate Functions and escalating concerns to the relevant CEB; and
- collaborates with Divisional/Corporate Functions and any other regional CEBs to ensure the way in which they address misconduct for employees in the scope of the UK Legal Entities meets with the expectations of the UK CEB and UK regulators.

The UK CEB is attended by the Bank's CEO and comprises senior leaders from the major divisions and Corporate Functions.

The CS group currently supports more than 40 internal employee networks worldwide that serve as a platform for the exchange of knowledge and experience, fostering mutual understanding and helping to strengthen corporate culture. The networks within the Bank, which are run by employees on a voluntary basis, and focus on women, families, Lesbian, Gay, Bisexual and Transgender ('LGBT') individuals, the older and younger generations, employees from various ethnic backgrounds. The networks within the Bank also support veterans, employees with physical disabilities, mental health issues and employees who have responsibilities of care.

Modern Slavery & Human Trafficking

In its role as an employer, and as a user and provider of services, Credit Suisse is committed to human rights and respects them as a key element of responsible business conduct. Credit Suisse voluntarily pledged to uphold to international human rights-related agreements, including: Equator Principles, Principles for Responsible Investment and UN Global Compact.

A number of internal policies, commitments and controls which are already in place help to eradicate modern slavery and human trafficking in our supply chain and across our business. In addition, the Credit Suisse Supplier Code of Conduct aims to ensure that our external business partners, including their employees, subsidiaries and subcontractors, respect human rights, labour rights, employment laws and environmental regulations. In 2016 Credit Suisse introduced a formal Third Party Risk Management ('TPRM') framework to scrutinize and monitor the operational, financial and reputational risk associated with third party relationships. The TPRM framework provides for structured due diligence assessments of our suppliers to identify where modern slavery and human trafficking risks may exist.

The complete statement, made pursuant to section 54, Part 6 of the Modern Slavery Act 2015, is publicly available and can be found at www.credit-suisse.com.

By Order of the Board



Paul E. Hare
Company Secretary

Five Cabot Square
London, E14 4QR
12 April 2017

Directors' report for the year ended 31 December 2016

International Financial Reporting Standards

CSUK's 2016 Financial Statements have been prepared in accordance with International Financial Reporting Standards ('IFRS') as adopted for use in the European Union ('EU').

The Financial Statements were authorised for issue by the Directors on 12 April 2017.

Dividends

No dividends were paid or are proposed for 2016 (2015: £ Nil).

Directors

The names of the Directors as at the date of this report are set out on page 2. Changes in the Directorate since 31 December 2015 and up to the date of this report are as follows:

Appointment:

Simon Politzer	27 January 2016
Emma Crystal (Non-Executive)	21 February 2017
Jason Forrester (Non-Executive)	21 February 2017

Resignation:

Garrett Curran	19 January 2016
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None of the Directors who held office at the end of the financial year were beneficially interested, at any time during the year, in the shares of the Bank. Directors of the Bank benefited from qualifying third party indemnity provisions in place during the financial year and at the date of this report.

Statement of Directors' Responsibilities in respect of the Strategic Report, the Director's Report and the Financial Statements

The Directors are responsible for preparing the Strategic Report, the Director's Report and the Financial Statements of the Bank in accordance with applicable law and regulations.

Company law requires the Directors to prepare the Bank's Financial Statements for each financial year. Under that law, they have elected to prepare the Bank's Financial Statements in accordance with IFRS as adopted by the EU and applicable law.

Under company law the Directors must not approve the Financial Statements unless they are satisfied that they give a true and fair view of the state of affairs of the Bank and of the profit or loss of the Bank for that period. In preparing these Financial Statements, the Directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable and prudent;
- state whether they have been prepared in accordance with IFRSs as adopted by the EU; and
- prepare the Financial Statements on the going concern basis unless it is inappropriate to presume that the Bank will continue in business.

The Directors are responsible for keeping adequate accounting records that are sufficient to show and explain the Bank's transactions and disclose with reasonable accuracy at any time the financial position of the Bank and enable them to ensure that its Financial Statements comply with the Companies Act 2006. They have a general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the Bank and to prevent and detect fraud and other irregularities.

Risk and Capital

The way in which risks are managed is detailed in the Strategic Report, and the risks are detailed in Note 31 – Financial Instruments Risk Position. Capital structure is set out in Note 23 – Share Capital and Share Premium.

Directors' report for the year ended 31 December 2016

Disclosure of Information to Auditor

The Directors who held office at the date of approval of this Directors' Report confirm that, so far as they are each aware, there is no relevant audit information of which the Bank's auditor is unaware; and each director has taken all the steps that they ought to have taken as a director to make themselves aware of any relevant audit information and to establish that the Bank's auditor is aware of that information.

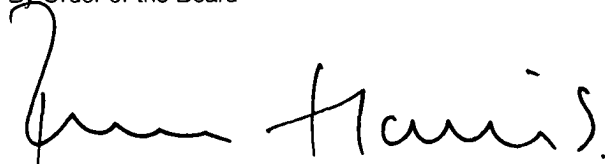
Auditor

Pursuant to Section 487 of the Companies Act 2006 the auditor will be deemed to be reappointed and KPMG LLP will therefore continue in office.

Subsequent Events

In February 2017, the Bank reached a settlement with a client on a case that has been fully provisioned for during 2016. In accordance with normal commercial practice CSUK purchases insurance cover, including for litigation risk and associated legal expenses. CSUK cannot make a claim until an insured event has occurred. Therefore, whilst at 31 December 2016 CSUK did have a provision (see note 21 - Provisions) relating to legal disputes there was no insured event upon which to claim and in accordance with IAS 37 no contingent asset was recognised. Upon successful settlement, CSUK has subsequently made a claim which our insurers have acknowledged but not settled.

By Order of the Board



Philip Harris
Director

Five Cabot Square
London, E14 4QR
12 April 2017

Independent Auditor's Report to the Members of Credit Suisse (UK) Limited

We have audited the financial statements of Credit Suisse (UK) Limited (the 'Bank') for the year ended 31 December 2016 set out on pages 20 to 90. The financial reporting framework that has been applied in their preparation is applicable law and International Financial Reporting Standards (IFRSs) as adopted by the EU.

This report is made solely to the Bank's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the Bank's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Bank and the Bank's members, as a body, for our audit work, for this report, or for the opinions we have formed.

Respective responsibilities of Directors and auditor

As explained more fully in the Directors' Responsibilities Statement set out on page 17, the Directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit, and express an opinion on, the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

Scope of the audit of the Financial Statements

A description of the scope of an audit of financial statements is provided on the Financial Reporting Council's website at www.frc.org.uk/auditscopeukprivate.

Opinion on Financial Statements

In our opinion the financial statements:

- give a true and fair view of the state of the Bank's affairs as at 31 December 2016 and of its loss for the year then ended;
- have been properly prepared in accordance with IFRSs as adopted by the EU; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

Opinion on other matters prescribed by the Companies Act 2006

In our opinion the information given in the Strategic Report and the Directors' Report for the financial year is consistent with the financial statements.

Based solely on the work required to be undertaken in the course of the audit of the financial statements and from reading the Strategic report and the Directors' report:

- we have not identified material misstatements in those reports; and
- in our opinion, those reports have been prepared in accordance with the Companies Act 2006.

Matters on which we are required to report by exception

We have nothing to report in respect of the following matters where the Companies Act 2006 requires us to report to you if, in our opinion:

- adequate accounting records have not been kept by the Bank, or returns adequate for our audit have not been received from branches not visited by us; or
- the financial statements are not in agreement with the accounting records and returns; or
- certain disclosures of Directors' remuneration specified by law are not made; or
- we have not received all the information and explanations we require for our audit.



Dean Rogers
(Senior Statutory Auditor)
for and on behalf of KPMG LLP, Statutory Auditor
Chartered Accountants
15 Canada Square,
London, E14 5GL
12 April 2017

Statement of Income for the Year ended 31 December 2016

		2016	2015
	Note	£000	£000
Interest income		49,992	42,969
Interest expense		(6,574)	(7,069)
Net interest income	4	43,418	35,900
Commission and fee income		48,959	56,904
Commission and fee expense		(2,009)	(3,713)
Net commission and fee income	5	46,950	53,191
Other operating income	6	544	8,884
Total non-interest income		47,494	62,075
Net operating income		90,912	97,975
Compensation and benefits	7	(49,408)	(46,423)
Other expenses	8	(40,306)	(36,801)
Total operating expenses		(89,714)	(83,224)
Profit before tax		1,198	14,751
Income tax charge	9	(1,642)	(1,222)
(Loss) / profit after tax		(444)	13,529

The accompanying notes on pages 26 to 90 form an integral part of these Financial Statements.

Statement of Comprehensive Income for the Year ended 31 December 2016

		2016	2015
	Note	£000	£000
(Loss)/profit after tax		(444)	13,529
Total items that are or may be reclassified to profit or loss			
Available-for-sale financial assets - net change in fair value	12	315	(345)
Available-for-sale financial assets - reclassified to profit or loss	6	-	(1,190)
Other comprehensive income/(loss), net of tax		315	(1,535)
Total comprehensive (loss)/income attributable to shareholders		(129)	11,994

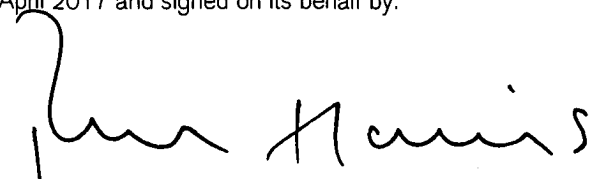
The accompanying notes on pages 26 to 90 form an integral part of these Financial Statements.

Statement of Financial Position as at 31 December 2016

		2016	2015
	Note	£000	£000
Assets			
Cash and due from banks		432,924	376,386
Interest-bearing deposits with banks		75,528	48,362
Securities purchased under resale agreements	10	829,694	817,938
Trading financial assets at fair value through profit or loss	11	16,332	24,997
<i>of which positive market value from derivative instruments</i>		<i>16,169</i>	<i>24,871</i>
Financial assets available for sale	12	2,010	1,695
Loans and receivables	13	1,547,855	1,323,696
Current income tax asset		287	246
Deferred tax assets	15	1,750	1,820
Other assets	16	19,010	17,849
Intangible assets	17	7,222	10,390
Goodwill	18	13,752	13,752
Total assets		2,946,364	2,637,131
Liabilities			
Deposits	19	2,635,334	2,336,664
Trading financial liabilities at fair value through profit or loss	11	15,844	24,059
<i>of which negative market value from derivative instruments</i>		<i>15,844</i>	<i>24,059</i>
Current income tax liability		2,948	1,642
Other liabilities	20	36,497	26,670
Provisions	21	22,247	14,473
Long term debt	22	25,000	25,000
Total liabilities		2,737,870	2,428,508
Shareholders' equity			
Share capital	23	245,230	245,230
Share premium	23	11,200	11,200
Accumulated other comprehensive income	12	1,973	1,658
Accumulated losses		(77,409)	(76,965)
Capital contribution reserve		27,500	27,500
Total shareholders' equity		208,494	208,623
Total liabilities and shareholders' equity		2,946,364	2,637,131

The accompanying notes on pages 26 to 90 form an integral part of these Financial Statements.

Approved by the Board of Directors on 12 April 2017 and signed on its behalf by:



Philip Harris
Director

Statement of Changes in Equity for the Year ended 31 December 2016

	Share Capital	Share Premium	Capital Contribution Reserve	Accumulate d Losses	AOCI ¹	Total Shareholders' Equity
	£000	£000	£000	£000	£000	£000
Balance as at 1 January 2016	245,230	11,200	27,500	(76,965)	1,658	208,623
Available-for-sale financial assets - net change in fair value	-	-	-	-	315	315
Available-for-sale financial assets - reclassified to profit or loss	-	-	-	-	-	-
Net profit recognised directly in equity	-	-	-	-	315	315
(Loss) for the year	-	-	-	(444)	-	(444)
Total comprehensive profit/(loss) recognised for the year	-	-	-	(444)	315	(129)
Balance as at 31 December 2016	245,230	11,200	27,500	(77,409)	1,973	208,494

	Share Capital	Share Premium	Capital Contribution Reserve	Accumulated Losses	AOCI ¹	Total Shareholders' Equity
	£000	£000	£000	£000	£000	£000
Balance as at 1 January 2015	245,230	11,200	27,500	(90,494)	3,193	196,629
Available-for-sale financial assets - net change in fair value	-	-	-	-	(345)	(345)
Available-for-sale financial assets - reclassified to profit or loss	-	-	-	-	(1,190)	(1,190)
Net loss recognised directly in equity	-	-	-	-	(1,535)	(1,535)
Profit for the year	-	-	-	13,529	-	13,529
Total comprehensive profit/(loss) recognised for the year	-	-	-	13,529	(1,535)	11,994
Balance as at 31 December 2015	245,230	11,200	27,500	(76,965)	1,658	208,623

The accompanying notes on pages 26 to 90 form an integral part of these Financial Statements.

¹ AOCI refers to Accumulated Other Comprehensive Income

Statement of Cash Flows for the Year Ended 31 December 2016

		2016	2015
	Note	£'000	£'000
Cash flows from operating activities			
Profit before tax for the year		1,198	14,751
Adjustments to reconcile net profit to net cash generated from/(used in) operating activities			
Non-cash items included in profit/(loss) before tax and other adjustments:			
Gain on sale of financial assets available for sale, net of withholding tax		-	(1,006)
Amortisation of intangible assets	17	3,168	3,168
Accrued interest on long term debt		909	918
Foreign exchange gain/(loss)		(41)	-
Cash generated from/(used in) before changes in operating assets and liabilities		5,234	17,831
Net change in operating assets:			
Securities purchased under resale agreements	10	(11,756)	156,190
Trading financial assets at fair value through profit or loss	11	8,665	(3,814)
Loans and receivables	13	(224,159)	17,296
Interest bearing deposits with banks		(27,166)	(4,917)
Other assets	16	(1,161)	1,836
Net change in operating assets		(255,577)	166,591
Net change in operating liabilities:			
Deposits	19	298,670	154,568
Trading financial liabilities at fair value through profit or loss	11	(8,215)	3,421
Other liabilities and provisions	20,21	17,612	(4,033)
Net change in operating liabilities		308,067	153,956
Group relief paid		(266)	-
Net cash (used in)/generated from operating activities		57,458	338,378
Cash flows from investing activities			
Sale of Financial assets available for sale	6	-	795
Net cash flow from/(used in) investing activities		-	795
Cash flows from financing activities			
Interest paid on long term debt		(920)	(918)
Net cash flow (used in)/generated from financing activities		(920)	(918)
Net increase/ (decrease) in cash and cash equivalents		56,538	338,255
Cash and cash equivalents at the beginning of the year		376,386	38,131
Cash and cash equivalents at the end of the year		432,924	376,386

The accompanying notes on pages 26 to 90 form an integral part of these Financial Statements.

Notes to the Financial Statements for the Year ended 31 December 2016

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Notes to the Financial Statements for the Year ended 31 December 2016

1. General

CSUK is incorporated in the United Kingdom. The address of the Bank's registered office is Five Cabot Square, London, E14 4QR. The Financial Statements were authorised for issue by the Directors on 12 April 2017.

2. Significant accounting policies

a) Statement of compliance

The Financial Statements of the Bank have been prepared on a going concern basis and approved by the Directors in accordance with International Financial Reporting Standards as adopted by the EU ('Adopted IFRS').

b) Basis of preparation

The Financial Statements are presented in pounds sterling ('GBP'), rounded to the nearest thousand. They are prepared on the historical cost basis except for the trading financial assets and liabilities that are stated at their fair value through profit or loss and financial assets available for sale that are stated at their fair value through equity.

The preparation of Financial Statements in conformity with adopted IFRS requires management to make judgements, estimates and assumptions that affect the application of policies and reported amounts of assets and liabilities, income and expenses. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making the judgements about carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates. Critical accounting estimates and judgements applied to these Financial Statements are set out in Note 3 - Critical accounting estimates and judgements in applying accounting policies.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period or in the period of revision and future periods if the revision has a significant effect on both current and future periods.

CSG continues to provide confirmation that it will provide sufficient funding to the Bank to ensure that it maintains a sound financial situation and is in a position to meet its debt obligations for the foreseeable future. Accordingly the Directors have prepared these accounts on a going concern basis.

Standards and Interpretations effective in the current period

The Bank has adopted the following amendments in the current year:

- Annual Improvements to IFRS s 2012-2014 Cycle: In September 2014, the IASB issued 'Annual Improvements to IFRSs 2012-2014 cycle' (Improvements to IFRSs 2012-2014). The adoption of the Improvements to IFRSs 2012-2014 on 1 January 2016, did not have a material impact to the Bank's financial position, results of operation or cash flows.
- Amendments to IAS 27: Equity Method in Separate Financial Statements: In August 2014 the IASB issued 'Equity Method in Separate Financial Statements' (Amendments to IAS 27). The Amendments reinstate the equity method as an accounting option for investments in subsidiaries, joint ventures and associates in an entity's separate financial statements. The adoption of the Amendments to IAS 27 on 1 January 2016 did not have a material impact to the Banks's financial position, results of operation or cash flows.
- Disclosure Initiative (Amendments to IAS 1): In December 2014, the IASB issued Amendments to IAS 1 as part of their Disclosure Initiative. The Amendments clarify guidance regarding materiality, notes to the financial statements and the presentation of the Statement of Financial Position and Statement of Profit or Loss and Other Comprehensive income. The Amendments will allow entities to use more judgement when preparing and presenting financial statements. As the Amendments to IAS 1 impact disclosures only, the adoption on 1 January 2016, did not have a material impact to the Bank's financial position, results of operation or cash flows.

Notes to the Financial Statements for the Year ended 31 December 2016

- Investment entities: Applying the Consolidation Exception (Amendments to IFRS 10, IFRS 12 and IAS 28): In December 2014, the IASB issued 'Investment Entities: Applying the Consolidation Exception' (Amendments to IFRS 10, IFRS 12 and IAS 28). The Amendments address issues that have arisen in relation to the exemption from consolidation for investment entities. The Amendments are effective for annual periods beginning on or after 1 January 2016. The adoption of Investment Entities: Applying the Consolidation Exception (Amendments to IFRS 10, IFRS 12 and IAS 28) did not have a material impact on the Bank's financial position, results of operation or cash flows.

Standards and Interpretations endorsed by the EU and not yet effective

The Bank is not yet required to adopt the following standards and interpretations which are issued by the IASB but not yet effective.

- IFRS 9 Financial Instruments: In November 2009 the IASB issued IFRS 9 'Financial Instruments' (IFRS 9) covering the classification and measurement of financial assets which introduces new requirements for classifying and measuring financial assets. In October 2010, the IASB reissued IFRS 9, which incorporated new requirements on the accounting for financial liabilities. In July 2014, the IASB issued IFRS 9 as a complete standard. The Standard includes requirements for recognition and measurement, impairment, derecognition and general hedge accounting. The amendments to IFRS 7 resulting from IFRS 9 also require new disclosures as well as the revision of current disclosure requirements.

Under IFRS 9, financial assets will be classified on the basis of two criteria: 1) the business model of how the financial assets are managed and 2) the contractual cash flow characteristics of the financial asset. These factors will determine whether the financial assets are measured at Amortized Cost, Fair value through Other Comprehensive Income or Fair value through Profit & Loss. The accounting for financial liabilities remains largely unchanged except for those financial liabilities designated at fair value through profit or loss, where the gains and losses arising from changes in credit risk will be presented in Other Comprehensive Income rather than profit or loss. The bank has not yet identified any material changes to the classification and measurement of financial instruments however this review remains ongoing.

Under IFRS 9, the new impairment requirements will primarily apply to financial assets measured at amortised cost and fair value through other comprehensive income as well as certain loan commitments and financial guarantee contracts. The impairment requirements will change from an incurred loss model to an expected loss model by incorporating reasonable and supportable forecasts of future economic conditions available at the reporting date.

If the credit risk has increased significantly since initial recognition of the financial instrument, the impairment measurement will change from 12-month expected credit losses (Stage 1) to lifetime expected credit losses (Stage 2). Therefore impairment will be recognized earlier than is the case under IAS 39 because IFRS 9 requires the recognition of expected credit losses before a loss event occurs and the financial asset is deemed to be credit-impaired (Stage 3). The definition of credit-impaired under IFRS 9 will be similar to the current indicators in IAS 39 of objective evidence of impairment. The assessment of a significant increase in credit risk since initial recognition will be based on different quantitative and qualitative factors that will be relevant to the particular financial instrument in scope.

The bank has established a cross-functional implementation team and governance structure for the project. The bank has decided on a point-in-time, forward-looking approach, incorporating probability of default, loss given default and exposure at default, as an expected credit loss ('ECL') methodology for financial instruments subject to Stage 1 and Stage 2. The IFRS 9 definition of default is intended to be aligned with the current regulatory definition of default. The Bank is currently in the process of building the ECL models. Once completed this will be followed by a test phase and subsequently a parallel-run. The Bank expects that the new ECL methodology would generally result in increased and more volatile allowance for loan losses. The main impact drivers include:

- the requirement to measure lifetime expected credit losses, if there is a significant increase in credit risk since initial recognition on a financial instrument;
- the point of time in the economic cycle at the adoption date because of the new requirement to incorporate reasonable and supportable forward looking information and macroeconomic factors; and
- the credit quality of the financial instruments in scope at the adoption date.

Notes to the Financial Statements for the Year ended 31 December 2016

IFRS 9 is effective for annual periods beginning on or after 1 January 2018. However certain sections of IFRS 9 relating to financial liabilities designated at fair value through profit or loss can be early adopted in isolation. The Bank does not plan to early adopt. Upon adoption the Bank expects an adjustment to be posted to retained earnings for any changes in impairment losses. As the implementation progresses, the Bank will continue evaluating the extent of the impact of adopting IFRS 9; however, it is not practical to disclose reliable financial impact estimates until the implementation programme is further advanced. Impacts are expected to be disclosed in the financial statements for the year ended 31 December 2017.

- **IFRS 15 Revenue from Contracts with Customers:** In May 2014, the IASB issued 'Revenue from Contracts with Customers' (IFRS 15). IFRS 15 establishes a single, comprehensive framework for revenue recognition. The core principle of IFRS 15 is that an entity will recognise revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. IFRS 15 also includes disclosure requirements to enable users of financial statements to understand the nature, amount, timing and uncertainty of revenue and cash flows arising from contracts with customers. In April 2016, the IASB issued Clarifications to IFRS 15 'Revenue from Contracts with Customers' (Clarifications to IFRS 15), which is yet to be endorsed by the EU. The Clarifications to IFRS 15 are intended to address implementation questions that were discussed by the Joint Transition Resource Group for Revenue Recognition on licenses of intellectual property, identifying performance obligations, principal versus agent application guidance and transition. IFRS 15 is effective for annual reporting periods beginning on or after 1 January 2018. The Bank has established a cross-functional implementation team and governance structure for the project. The Bank's implementation efforts include the identification of revenue within the scope of the guidance, as well as the evaluation of revenue contracts under the new guidance. The guidance does not apply to revenue associated with financial instruments, including loans and securities that are accounted for under other IFRSs. The Bank has not yet identified any material changes in the timing and amount of revenue recognition however this evaluation remains ongoing.

Standards and Interpretations not endorsed by the EU and not yet effective

The Bank is not yet required to adopt the following standards and interpretations which are issued by the IASB but not yet effective and have not yet been endorsed by the EU.

- **IFRS 16 Leases:** In January 2016 the IASB issued IFRS 16 'Leases' (IFRS 16) which sets out the principles for the recognition, measurement, presentation and disclosure of leases for both lessees and lessors. IFRS 16 includes disclosure requirements to provide more information about the amount, timing and uncertainty of cash flows arising from leases. Lessor accounting is substantially unchanged compared to the current accounting guidance. Under the current lessee accounting model the bank is required to distinguish between finance leases, which are recognized on balance sheet, and operating leases, which are not. IFRS 16 will require lessees to present a right-of-use asset and a corresponding lease liability on the balance sheet for all leases with a lease term of greater than twelve months, unless the underlying asset is of low value. IFRS 16 is effective for annual periods beginning on or after 1 January 2019. The bank has established a cross-functional implementation team and governance structure for the project. The bank is currently reviewing its existing contracts to determine the impact of the adoption of IFRS 16. The bank expects an increase in total assets and total liabilities as a result of recognizing right-of use-assets and lease liabilities for all leases under the new guidance and is currently evaluating the extent of the impact of the adoption of IFRS 16 on the bank's results of operations and cash flows.
- **Amendments to IAS 12: Income Taxes:** In January 2016, the IASB issued 'Recognition of Deferred Tax Assets for Unrealised Losses' (Amendments to IAS 12). The Amendments clarify how to account for deferred tax assets related to debt instruments measured at fair value. The Amendments to IAS 12 are effective for annual periods beginning on or after 1 January 2017, with retrospective application required. The Bank is currently evaluating the impact of adopting the Amendments to IAS 12.
- **Disclosure Initiative (Amendments to IAS 7):** In January 2016, the IASB issued amendments to IAS 7 as part of their Disclosure Initiative. The Amendments require enhanced statement of cash flow disclosures regarding changes in liabilities arising from financing activities, including changes from cash flows and non-cash changes. The Amendments are effective for annual periods beginning on or after 1 January 2017. The Bank is currently evaluating the impact of adopting the Amendments to IAS 7.

Notes to the Financial Statements for the Year ended 31 December 2016

- **Amendments to IFRS 2: Share-based Payment:** In June 2016, the IASB issued narrow scope amendments to IFRS 2 Share-based payments (Amendments to IFRS 2). The Amendments clarify how to account for certain types of share-based payment transactions. The Amendments to IFRS 2 are effective for annual periods beginning on or after 1 January 2018, with early application permitted. The Bank is currently evaluating the impact of adopting the Amendments to IFRS 2.
- **IFRIC 22:** In December 2016, the IASB issued IFRIC 22 "Foreign Currency Transactions and Advance Consideration". IFRIC 22 clarifies the date of the transaction for the purposes of determining the exchange rate used on initial recognition of related asset, expense or income, when an entity has received or paid advance consideration in a foreign currency. IFRIC 22 is effective for annual periods beginning on or after 1 January 2018. The Bank is currently evaluating the impact of adopting IFRIC 22.
- **Annual Improvements to IFRSs 2014-2016 Cycle:** In December 2016, the IASB issued 'Annual Improvements to IFRSs 2014-2016 cycle' (Improvements to IFRSs 2014-2016), which are effective for annual periods beginning on or after 1 January 2017. The Bank is currently evaluating the impact of adopting Improvements to IFRSs.

The accounting policies have been applied consistently by the Bank.

Certain reclassifications have been made to the prior year Financial Statements of the Bank to conform to the current year's presentation and had no impact on net income/ (loss) or total shareholders' equity. These reclassifications are not material.

c) Subsidiaries

Subsidiaries are entities controlled by the Bank. The Bank controls an entity when it is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. When the Bank has decision making rights, it assesses whether it controls an entity and determines whether it is a principal or an agent. The Bank also determines whether another entity with decision-making rights is acting as an agent for the Bank. An agent is a party primarily engaged to act on behalf of and for the benefit of another party (the principal) and therefore does not control the entity when it exercises its decision-making authority. A decision maker considers the overall relationship between itself and other parties involved with the entity, in particular all of the factors below, in determining whether it is an agent:

- The scope of its decision making authority over the entity;
- The rights held by other parties;
- The remuneration to which it is entitled;
- The decision maker's exposure to variability of returns from other interests that it holds in the entity.

The Bank makes significant judgements and assumptions when determining if it has control of another entity. The Bank may control an entity even though it holds less than half of the voting rights of that entity, for example if the Bank has control over an entity on a de facto basis because the remaining voting rights are widely dispersed and/or there is no indication that other shareholders exercise their votes collectively. Conversely, the Bank may not control an entity even though it holds more than half of the voting rights of that entity, for example where the Bank holds more than half of the voting power of an entity but does not control it, as it has no right to variable returns from the entity and is not able to use its power over the entity to affect those returns. The Financial Statements of subsidiaries are included in the consolidated Financial Statements from the date which control commences until the date on which control ceases. The Bank reassesses consolidation status on a quarterly basis.

The Bank has two subsidiaries:

Buckmore Nominees Limited acts as a nominee company. The net assets and results of this subsidiary have not been consolidated into the Bank and are not considered material.

Credit Suisse London Nominees Limited acts as a nominee company. The net assets and results of this subsidiary have not been consolidated into the Bank and are not considered material.

Notes to the Financial Statements for the Year ended 31 December 2016

Pursuant to section 401 of the Companies Act, 2006, the Bank is exempt from preparing and delivering group Financial Statements as the Bank is a wholly owned indirect subsidiary of CSG, incorporated in Switzerland, which prepares consolidated Financial Statements.

Details of the undertakings of both subsidiaries are given in Note 14 – Investments in subsidiaries.

d) Foreign currency

The Bank's functional currency is GBP (£). Transactions denominated in currencies other than the functional currency of the reporting entity are translated at the foreign exchange rate ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies at the reporting date are translated to GBP at the foreign exchange rate ruling at that date. Foreign exchange ('FX') differences arising from translation are recognised in the Statement of Income. Non-monetary assets and liabilities denominated in foreign currencies, at the reporting date are not revalued for movements in foreign exchange rates.

e) Cash and due from banks

For the purpose of preparation and presentation of the Statement of Cash Flows, cash and cash equivalents comprise the components of cash and due from banks that are short term, highly liquid instruments with original maturities of three months or less which are subject to an insignificant risk of changes in their fair value and that are held or utilised for the purpose of cash management.

Where cash is received or deposited as collateral, the obligation to repay or the right to receive that collateral is recorded in other assets or other liabilities.

f) Interest-bearing deposits with banks

For the purpose of preparation and presentation of the Statement of Financial Position, interest bearing deposits with banks comprise of cash placed with other CS group entities for a fixed tenure. These have original maturities of more than three months and are placed for the purpose of liquidity management.

g) Securities purchased under resale agreements

Securities purchased under resale agreements ('reverse repurchase agreements') do not constitute economic sales and are therefore treated as collateralised financing transactions. In reverse repurchase agreements, the cash advanced, including accrued interest is recognised on the Statement of Financial Position as an asset.

Securities received under reverse repurchase agreements are not recognised or derecognised unless all or substantially all the risks and rewards are obtained or relinquished. The Bank monitors the market value of the securities received or delivered on a daily basis and provides or requests additional collateral in accordance with the underlying agreements. Interest earned on reverse repurchase agreements is recognised and recorded as interest income.

h) Financial assets and liabilities at fair value through profit or loss

The Bank classifies certain financial assets and liabilities as held for trading at fair value through profit or loss. These financial assets and liabilities are carried at fair value. Fair value is defined as the price that would be received to sell an asset or transfer a liability in an orderly transaction between market participants at the measurement date. When determining the fair value of an instrument, the Bank maximises the use of relevant observable inputs and minimises the use of unobservable inputs. Where the fair value is not determined on quoted price in an active market for an identical asset or liability or on a valuation technique that uses data from observable inputs, then reserves are established for unrealised gains or losses evident at the inception of the contracts so that no gain or loss is recorded at inception. Such reserves are amortised to income over the life of the instrument or released into income when observable inputs becomes available.

Notes to the Financial Statements for the Year ended 31 December 2016

Trading financial assets and financial liabilities at fair value through profit or loss

Trading financial assets and financial liabilities include mainly derivative instruments. Derivatives classified as trading assets and liabilities include those held for trading purposes and those used for risk management purposes that do not qualify for hedge accounting. Derivatives held for trading purposes arise from customer-based activity.

All freestanding derivative contracts are carried at fair value on the Statement of Financial Position regardless of whether these instruments are held for trading or risk management purposes.

The fair value recorded for derivative instruments does not indicate future gains or losses, but rather the unrealised gains and losses from valuing all derivatives at a particular point in time. The fair value of exchange-traded derivatives is typically derived from observable market prices and / or observable market parameters. Fair values for Over the Counter ('OTC') derivatives are determined on the basis of internally developed proprietary models using various input parameters.

For further information on fair value determination of derivative instruments, refer to Note 29 – Financial instruments.

i) Financial assets available for sale

Financial assets that are not classified at fair value through profit or loss, as loans and receivables or as held-to-maturity investments are classified as available for sale. Certain marketable equity securities are classified as available for sale.

Equity securities classified as available for sale are initially recognised at fair value plus transaction costs that are directly attributable to the acquisition of the securities. Securities available for sale is carried at fair value with the changes in fair value reported in Accumulated Other Comprehensive Income ('AOCI') until such investments are sold or impaired. For equity securities available for sale, the gain or loss is recognised in AOCI including any related foreign exchange component. Gains and losses recorded in AOCI are transferred to the Statement of Income on disposal of assets available for sale and presented as other revenues. Generally, the weighted average cost method is used to determine the gain or loss on disposals. Dividend income on available-for-sale financial assets is presented in net operating income.

The Bank assesses at each Statement of Financial Position date whether there is objective evidence that an asset or group of assets available for sale is impaired. In the case of equity securities available for sale, objective evidence would include a significant or prolonged decline in the fair value of the investment below cost - that is the fair value has been below cost for more than six months or by more than 20%. Where there is evidence of impairment, the cumulative unrealised loss previously recognised in AOCI within equity is transferred to the Statement of Income for the period and reported in other revenues. This amount is determined as the difference between the acquisition cost (net of any principal repayments and amortisation) and current fair value of the asset less any impairment loss on that investment previously recognised in the Statement of Income. Impairment losses on equity securities available for sale are not reversed; increases in their fair value after impairment are recognised in AOCI.

j) Recognition and derecognition

Recognition

The Bank recognises financial instruments on its Statement of Financial Position when the Bank becomes a party to the contractual provisions of the instrument.

Regular-way securities transactions

A regular-way purchase or sale is a purchase or sale of a financial asset under a contract whose terms require delivery of the asset within the time frame established generally by regulation or convention in the marketplace concerned. The Bank recognises regular-way purchases or sales of trading financial assets at the settlement date, unless the instrument is a derivative.

Derecognition

The Bank enters into transactions where it transfers assets including securitisation assets, recognised on its Statement of Financial Position, but retains either all risks or rewards of the transferred assets or a portion of them. If all or substantially all risks and rewards are retained, the transferred assets are not derecognised from the Statement of Financial Position.

In transactions where the Bank neither retains nor transfers substantially all risks and rewards of ownership of a financial asset, it derecognises the asset if control over the asset is lost. The rights and obligations retained in the transfer are

Notes to the Financial Statements for the Year ended 31 December 2016

recognised separately as assets and liabilities as appropriate. In transfers where control over the asset is retained, the Bank continues to recognise the asset to the extent of its continuing involvement, determined by the extent to which it is exposed to changes in the value of the transferred asset.

The Bank derecognises a financial liability when its contractual obligations are discharged or cancelled or expire. Where the Bank has a financial liability and a financial instrument is exchanged for a new financial instrument with the same counterparty, which is substantially different, or when an existing financial instrument classified as a financial liability is substantially modified, the old financial instrument is deemed to be extinguished and a new financial liability is recognised. Any gain or loss due to derecognition of the extinguished instrument is recorded in the Statement of Income. Where a modification and not an extinguishment is deemed to have occurred, the difference is adjusted to the carrying value of the new instrument and reclassified into income using the effective interest method.

k) Loans and receivables

Loans and receivables are recognised when cash is advanced to borrowers. They are initially recorded at fair value, plus any directly attributable transaction costs and subsequently are amortised on an effective yield basis, less impairment losses.

Impairment on loans and receivables

The Bank assesses at each Statement of Financial Position date whether there is objective evidence that a loan position or a portfolio of loans is impaired. A loan is classified as non-performing no later than when the contractual payments of principal and / or interest are more than 90 days past due. Any accrued interest receivable existing at the date of classification of a loan to non-performing is reclassified to the loan account to which the interest relates, and a corresponding allowance for loan losses is established and presented net against interest income. An individual loan position or portfolio of loans is impaired and impairment losses are incurred if, and only if, there is objective evidence of impairment as a result of one or more loss events that occurred after the initial recognition of the asset and prior to the Statement of Financial Position date ('a loss event') and that loss event or events has had an impact on the estimated future cash flows of the financial asset or the portfolio that can be reliably estimated.

All individual loans are assessed for specific impairment. Individual loans found not to be impaired are then collectively assessed for impairment that has incurred, but not yet been identified. Loans that are not individually significant are assessed collectively for impairment. Loans subject to collective impairment testing are grouped into loan portfolios on the basis of similar risk, industry or country rating. Objective evidence that an individual loan is impaired can include significant financial difficulty of the borrower, default or delinquency by the borrower and indications that a borrower will enter bankruptcy. Objective evidence that a loan portfolio is impaired can include changes of the payment status of borrowers in the group or economic conditions that correlate with defaults in the group.

Many factors can affect the Bank's estimate of the impairment losses on loans and receivables, including volatility of default probabilities, rating migrations and loss severity. The estimate of the component of the allowance for specifically identified credit losses on impaired loans is based on a regular and detailed analysis of each loan in the portfolio considering collateral and counterparty risk. For certain non-collateral dependent impaired loans, impairment charges are measured using the present value of estimated future cash flows discounted at the asset's original effective interest rate. For collateral dependent impaired loans, impairment charges are measured using the value of the collateral.

The estimation of impairment for a loan portfolio involves applying historical loss experience, adjusted to reflect current market conditions, to homogeneous loans based on risk rating and product type. The amount of the loss is recognised in the Statement of Income in 'Other expenses'. The methodology and assumptions used for estimating future cash flows are reviewed regularly to reduce any differences between loss estimates and actual loss experience.

Write-off of loans

When it is considered certain that there is no realistic prospect of recovery, or that the cost of doing so are uneconomic in the context of the sum to be recovered, and all collateral has been realised or transferred to the Bank, the loan and any associated allowance is written off. Any repossessed collateral is initially measured at fair value. The subsequent measurement will depend on the nature of the collateral.

Notes to the Financial Statements for the Year ended 31 December 2016

Renegotiated loans

Restructuring of loans may involve extending the payment arrangements and the agreement of modified loan conditions. Once the terms have been renegotiated any impairment is measured using the effective interest rate as calculated before the modification of terms and the loan is no longer considered past due. Management continuously reviews renegotiated loans to ensure that all criteria are met and that future payments are likely to occur. The loans continue to be subject to an individual or collective impairment assessment, calculated using the loan's original effective interest rate.

l) Netting

The Bank only offsets financial assets and liabilities and presents the net amount in the Statement of Financial Position where it:

- currently has a legally enforceable right to set off the recognised amounts; and
- intends either to settle on a net basis, or to realise the asset and liability simultaneously.

In many instances the Bank's net position on multiple bilateral OTC derivative transactions with the same counterparty is legally protected by Master Netting Agreements. Such agreements ensure that the net position is settled in the event of default of either counterparty or effectively limit credit risk on gross exposures. However, if the transactions themselves are not intended to be settled net nor will they settle simultaneously, it is not permissible under IAS 32 (Financial Instruments: Presentation) to offset transactions falling under Master Netting Agreements.

The Bank currently has no legal netting agreements with non-related parties.

m) Income taxes

Income tax recognised in the Statement of Income and the Statement of Other Comprehensive Income for the year comprises current and deferred tax. Income tax is recognised in the Statement of Income unless it relates to items recognised in the Statement of Other Comprehensive Income or directly in equity, in which case the income tax is recognised in the Statement of Other Comprehensive Income or directly in equity respectively. For items initially recognised in equity and subsequently recognised in the Statement of Income, the related income tax initially recognised in equity is also subsequently recognised in the Statement of Income.

Current tax is the expected tax payable on the taxable income for the year and includes any adjustment to tax payable in respect of previous years. Current tax is calculated using tax rates enacted or substantively enacted at the reporting date. Withholding taxes are also treated as income taxes.

For UK corporation tax purposes the Bank may surrender or claim certain losses from another UK group company. The surrendering company will be compensated in full for the value of the tax losses surrendered to the claimant company. The surrendering entity will show a benefit received for the losses surrendered which will be recorded as a reduction to current tax expense and taxes payable whereas the claimant entity will have an increase in current tax expense and taxes payable respectively.

Deferred tax is provided using the Statement of Financial Position liability method, providing for temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and their tax-base. The amount of deferred tax provided is based on the amount at which it is expected to recover or settle the carrying amount of assets and liabilities in the Statement of Financial Position, using tax rates that are expected to be applied to the temporary differences when they reverse, based on the laws that have been enacted or substantively enacted at the Statement of Financial Position date.

Deferred tax is not recognised for the following temporary differences: the initial recognition of assets or liabilities in a transaction that is not a business combination and that affects neither accounting nor taxable profit or loss, and differences relating to investments in subsidiaries and jointly controlled entities to the extent that it is probable that they will not reverse in the foreseeable future. In addition, deferred tax is not recognised for taxable temporary differences arising on the initial recognition of goodwill.

A deferred tax asset is recognised only to the extent that it is probable that future taxable profits will be available against which the asset can be utilised. Deferred tax assets are reduced to the extent that it is no longer probable that the related tax benefit will be realised. Tax assets and liabilities of the same type (current or deferred) are offset when they arise from

Notes to the Financial Statements for the Year ended 31 December 2016

the same tax reporting group, they relate to the same tax authority, the legal right to offset exists, and they are intended to be settled net or realised simultaneously.

Additional income taxes that arise from the distribution of dividends are recognised at the same time as the liability to pay the related dividend arises. Information as to the calculation of income tax recognised in the Statement on Income for the periods presented is included in Note 9 – Income Tax.

Tax contingencies

Significant judgement is required in determining in evaluating certain tax positions. The Bank may accrue for tax contingencies which may be adjusted due to changing facts and circumstances, such as case law, progress of audits or when an event occurs requiring a change to the tax contingency accruals. Management regularly assesses the appropriateness of provisions for income taxes. Management believes that it has appropriately accrued for any contingent tax liabilities.

n) Intangible assets

Intangible assets consist of a customer list and internally developed software. The capitalised cost of the customer list is the fair value at the date of acquisition. Expenditure on internally developed software is recognised as an asset when the Bank is able to demonstrate its intention and ability to complete the development and use the software in a manner that will generate future economic benefits, and can reliably measure the costs to complete the development. The capitalised costs of internally developed software include all costs directly attributable to developing the software.

Intangible assets are stated at cost less accumulated amortisation and impairment losses and are amortised over an estimated useful life. Internally developed software is amortised over an estimated useful life of three years using the straight line method upon completion, or utilisation. The customer list is amortised over an estimated useful life of five years using the straight line method. The amortisation of the intangible assets is included in the 'Other expenses' line item in the Statement of Income.

The carrying amounts of the Bank's intangible assets are reviewed at each reporting date to determine whether there is any indication of impairment. If any such indication exists, then the asset's recoverable amount is estimated. The recoverable amount of an asset is the greater of its value in use and its fair value less costs to sell. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. An impairment loss is recognised if the carrying amount of an asset exceeds its estimated recoverable amount. Impairment losses are recognised in Statement of Income.

o) Goodwill

Goodwill represents the amount by which the purchase price exceeds the fair value of identifiable intangible assets of an acquired business on the date of acquisition. It is measured as the excess of the fair value of the consideration transferred, over the net of the acquisition-date fair values of the identifiable assets acquired and the liabilities assumed. Acquisition related costs are expensed as incurred.

For the purpose of calculating goodwill, fair values of assets acquired and liabilities assumed are calculated using quoted market prices, if available, or by applying appropriate valuation techniques.

Goodwill on the acquisition of business is capitalised and reviewed annually for impairment, or more frequently if there are indications that impairment may have occurred. Goodwill is allocated to cash-generating units for purpose of impairment testing considering the level at which goodwill is monitored for internal management purposes. An impairment loss is recognised if the carrying amount of a cash-generating unit exceeds its recoverable amount. The recoverable amount of a cash-generating unit is the greater of its value in use and its fair value less cost to sell.

If goodwill has been allocated to a cash-generating unit or a group of cash-generating units and an operation within that unit is disposed of, the attributable goodwill is included within the carrying amount of the operation when determining the gain or loss on disposal.

Notes to the Financial Statements for the Year ended 31 December 2016**p) Retirement benefit costs**

The Bank has a defined contribution pension plan, and a legacy defined benefit scheme which is now closed to new participants. The defined benefit plan is a CS group scheme, and the Bank is not the sponsoring entity. Obligations for contribution to defined contribution pension plans are recognised as an expense in the Statement of Income as incurred.

In accordance with the provisions of IAS 19 'Employee Benefits' for defined benefit plans that share risks between various entities under common control, no retirement benefit obligation is recognised in the Statement of Financial Position of the Bank and defined contribution accounting is applied, as the Bank has no contractual agreement or stated policy for incurring any charges by the sponsoring employer for the net defined benefit cost.

The Bank's share of the defined benefit obligation is instead recognised in the Statement of Financial Position of the sponsoring entity, Credit Suisse Securities (Europe) Limited ('CSSEL'), which is external to the Bank but is a related party due to both entities being owned by CSG.

q) Share-based payments

The Bank accounts for share based transactions with its employees as cash-settled share based payment transactions, as the Bank has the legal obligation to settle the arrangement by delivering an asset that is not its own equity instrument. This entails the recognition of a liability, incurred and related to share-based payments, over the service period and in proportion to the service delivered at fair value. If the employee is eligible for normal or early retirement, the award is expensed over that shorter required service period and if an award consists of individual tranches that vest in instalments (i.e. graded vesting), each tranche of the award is expensed separately over its individual service period. The fair value of the liability is remeasured until the liability is settled and the changes in fair value are recognised in the Statement of Income.

r) Other compensation plans

The Bank has other deferred compensation plans which can be in the form of fixed or variable deferred cash compensation. The expense for these awards is recognised over the service period, which is the period the employee is obligated to work in order to become entitled to the cash compensation. Fixed deferred cash compensation is generally awarded in the form of sign-on bonuses and employee forgivable loans. Variable deferred cash compensations are awards where the final cash payout is determined by the performance of certain assets, a division or the CS group as a whole. The awards are expensed over the required service period and accruals are adjusted for changes to the expected final payout.

s) Contingent liabilities

Contingent liabilities are possible obligations that arise from past events and whose existence will be confirmed only by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the entity, or are present obligations where it is not probable that an outflow of resources embodying economic benefits will be required to settle the obligation or the amount of the obligation cannot be measured with sufficient reliability. A contingent liability is not recognised as a liability but is disclosed, unless the possibility is remote, except for those acquired under business combinations, which are recognised at fair value. The Bank provides indemnifications to certain counterparties in connection with its normal operating activities, for which it is not possible to estimate the maximum amount that it could be obligated to pay.

t) Provisions

Provisions are recognised for present obligations as a result of past events which can be reliably measured, where it is probable that an outflow of resources embodying economic benefits will be required to settle the obligations. The amount recognised as a provision is the best estimate of the consideration required to settle the present obligation as of the Statement of Financial Position date, taking into account the risks and uncertainties surrounding the obligation. The expense recognised when provisions are established is recorded in 'Other expenses' in the Statement of Income.

u) Interest income and expense

Interest income and expense includes interest income and expense on the Bank's long-term borrowings, deposits and reverse repurchase agreements. Interest income and expense does not include interest flows on the Bank's trading derivatives (except for hedging relationships), trading instruments and financial instruments classified as at fair value

Notes to the Financial Statements for the Year ended 31 December 2016

through profit or loss. Interest income and expense is accrued, and any related net deferred premiums, discounts, origination fees or costs are amortised as an adjustment to the yield over the life of the related asset or liability.

v) Commissions and fees

When the outcome of a transaction involving the rendering of services can be estimated reliably, revenue associated with the transaction is recognised by reference to the stage of completion of the transaction at the date of Statement of Financial Position. The outcome of a transaction can be estimated reliably when all the following conditions are satisfied:

- The amount of revenue can be measured reliably;
- It is probable that the economic benefits associated with the transaction will flow to the entity ;
- The stage of completion of the transaction at the reporting date can be measured reliably; and

The costs incurred for the transaction and the costs to complete the transaction can be measured reliably.

Fee and commission revenue is recognised from a diverse range of services provided to the Bank's customers and is accounted for as follows:

- Income earned on the execution of a significant act is recognised as revenue when the act is completed (for example, fees arising from negotiating, or participating in the negotiation of, a transaction for a third party;
- Income earned from the provision of services is recognised as revenue as the services are provided (for example, portfolio management, customer trading and custody services);
- Income which forms an integral part of the effective interest rate of a financial instrument is recognised as an adjustment to the effective interest rate and recorded in 'Interest income'; and
- Performance linked fees or fee components are recognised when recognition criteria are fulfilled.

Incremental costs that are directly attributable to securing investment management contracts may be deferred to match the revenue recognised in relation to that transaction. These assets are recognised as the Bank recognises the related revenue.

w) Dividends

Dividends on ordinary shares are recognised as a liability and deducted from equity when declared.

Notes to the Financial Statements for the Year ended 31 December 2016

3. Critical accounting estimates and judgements in applying accounting policies

In order to prepare the Financial Statements in accordance with adopted IFRS, management is required to make certain accounting estimates to ascertain the value of assets and liabilities. These estimates are based upon judgement and the information available at the time, and actual results may differ materially from these estimates. Management believes that the estimates and assumptions used in the preparation of the Financial Statements are prudent, reasonable and consistently applied.

For further information on significant accounting policies refer to Note 2 – Significant Accounting Policies, specifically the following:

- (h) Financial assets and liabilities at fair value through profit or loss
- (j) Recognition and derecognition
- (k) Loans and receivables
- (m) Income Taxes
- (n) Intangible assets
- (o) Goodwill
- (p) Retirement Benefit costs
- (q) Share-based payments
- (s) Contingent liabilities
- (t) Provisions

Management believes that the critical accounting estimates discussed below involve the most significant judgements and assessments. Use of available information and application of judgement are inherent in the formation of estimates. Actual results in the future could differ from such estimates and the differences may be material to the Financial Statements.

Fair value

Certain of the Bank's financial instruments (trading assets and liabilities, available for sale investments) are recorded at fair value in the Statement of Financial Position. Related changes in the fair value are recognised in the Statement of Income, in the case of trading assets & liabilities and the Statement of Comprehensive Income in the case of available for sale investments.

The fair value of all of the Bank's trading assets and liabilities is based on valuation techniques using observable inputs (level 2). These instruments include OTC foreign exchange forward contracts.

The Bank also holds certain investments that are categorised as available for sale, no prices or observable inputs are available (level 3) for these. The determination of fair value of these securities requires subjective assessment and judgement depending on marketability, pricing assumptions and the current economic and competitive environment and the risk of affecting these investments. For more details to the fair value of financial instruments and the assumptions on valuation models, see Note 29 - Financial instruments.

As of the end of 2016, 0.62% and 0.58% of the Bank's total assets and total liabilities respectively, were measured at fair value (2015: 1.01% and 0.99%, respectively). Level 3 assets were £2.01m as of the end of 2016 (2015: £1.7m). As of the end of 2016, these level 3 assets comprised 0.07% of total assets (2015: 0.06%) and 10.96% of the total assets measured at fair value (2015: 6.35%).

Control processes are applied to ensure that the fair value of the financial instruments reported in the Financial Statements, including those derived from pricing models, are appropriate and determined on a reasonable basis. For further information related to the Bank's control and governance processes on the fair value of financial instruments please refer Note 29 – Financial Instruments.

Contingencies and loss provisions

According to IAS 37 "Provisions, Contingent Liabilities and Contingent Assets", a provision shall be recognised when:

- (a) an entity has a present obligation (legal or constructive) as a result of a past event;
- (b) it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation; and
- (c) a reliable estimate can be made of the amount of the obligation.

Notes to the Financial Statements for the Year ended 31 December 2016

A contingency is an existing condition that involves a degree of uncertainty that will ultimately be resolved upon the occurrence of future events

Litigation contingencies

The Bank is involved in a variety of legal, regulatory and arbitration matters in connection with the conduct of its businesses. It is inherently difficult to predict the outcome of many of these matters, particularly those cases in which the matters are brought on behalf of various classes of claimants, who may seek damages of unspecified or indeterminate amounts or involve novel legal claims. In presenting the Financial Statements, management makes estimates regarding the outcome of legal, regulatory and arbitration matters and takes a charge to income when losses with respect to such matters are probable and can be reasonably estimated. Charges are not established for matters when losses cannot be reasonably estimated. Estimates, by their nature, are based on judgement and currently available information and involve a variety of factors, including but not limited to the type and nature of the litigation, claim or proceeding, the progress of the matter, the advice of legal counsel and other advisers, the Bank's defences and experience in similar cases or proceedings.

Goodwill Impairment

Recorded goodwill is not amortised, rather it is reviewed for possible impairment on an annual basis as of 31 December and at any other time that events or circumstances indicate that the carrying value of goodwill may not be recoverable. Circumstances that could trigger an impairment test include, but are not limited to:

- i. macroeconomic conditions such as a deterioration in general economic conditions or other developments in equity and credit markets;
- ii. industry and market considerations such as a deterioration in the environment in which the entity operates, an increased competitive environment, a decline in market-dependent multiples or metrics (considered in both absolute terms and relative to peers), and regulatory or political developments;
- iii. other relevant entity-specific events such as changes in management, key personnel or strategy;
- iv. a more-likely-than-not expectation of selling or disposing all, or a portion, of a cash-generating unit;
- v. results of testing for recoverability of a significant asset group within a reporting unit;
- vi. recognition of a goodwill impairment in the Financial Statements of a subsidiary that is a component of a cash-generating unit; and
- vii. a sustained decrease in share price (considered in both absolute terms and relative to peers).

If the recoverable amount of the cash generating unit exceeds its carrying amount, there is no goodwill impairment. The recoverable amounts for the Bank have been calculated based on the value in use, determined by discounting the future free cash flows expected to be generated from the continuing business of the Bank. In computing the present value of the Bank's estimated free cash flows, the discount rate used was based on the estimated cost of equity capital. A constant growth model was used to determine the terminal value. Budgeted profit after taxes was based on expectations of future outcomes taking into account past experience, and adjusted for anticipated revenue growth.

Estimates of the future earnings potential, and that of the reporting units, involve considerable judgement, including management's view on future changes in market cycles, the anticipated result of the implementation of business strategies, competitive factors and assumptions concerning the retention of key employees. Adverse changes in the estimates and assumptions used to determine the recoverable value of the cash generating unit may result in a goodwill impairment charge in the future.

Allowances and impairment losses on loans and receivables

As a normal part of its business, the Bank is exposed to credit risks through its lending relationships and commitments and as a result of counterparty risk on derivatives, foreign exchange and other transactions. Credit risk is the risk that a borrower or counterparty is unable to meet its financial obligations. In the event of a default, the Bank generally incurs a loss equal to the amount owed by the counterparty, less a recovery amount resulting from foreclosure, liquidation of collateral or restructuring of the counterparty's obligation. The Bank maintains allowances for loan losses, which are considered adequate to absorb credit losses existing at the reporting date. These allowances are for incurred credit losses inherent in existing exposures and credit exposures specifically identified as impaired. The inherent loss allowance is for all credit exposures not specifically identified as impaired which, on a portfolio basis, are considered to contain incurred inherent losses. Loans are segregated by risk, industry or country rating in order to collectively estimate inherent losses.

Notes to the Financial Statements for the Year ended 31 December 2016

The loan valuation allowance for inherent loss is established by analysing historical and current default probabilities, historical recovery assumptions and internal risk ratings. The methodology for calculating specific allowances involves judgements at many levels, such as early identification of deteriorating credits. Extensive judgement is required in order to properly evaluate the various indicators of financial condition of a counterparty and likelihood of repayment.

The Bank performs an in-depth review and analysis of impaired loans, considering factors such as recovery and exit options as well as considering collateral and financial status of the client. In general, all impaired loans are individually assessed. Corporate and Institutional loans are reviewed at least annually based on the borrower's Financial Statements and any indications of difficulties they may experience. Loans that are not impaired, but which are of special concern due to negative financial news or other adverse developments, are included on a watch list. All loans on the watch list are reviewed at least quarterly to determine whether they should be moved to the Bank's recovery management at which point they are reviewed monthly for impairment. If an individual loan specifically identified for evaluation is considered impaired, the allowance is determined as a reasonable estimate of credit losses existing as of the end of the reporting period. Thereafter, the allowance is revalued by Bank's credit risk management at least annually or more frequently depending on the risk profile of the borrower or credit relevant events.

Income taxes

Deferred tax valuation

Deferred tax assets ('DTA') and deferred tax liabilities ('DTL') are recognised for the estimated future tax effects of operating loss carry-forwards and temporary differences between the carrying amounts of existing assets and liabilities and their respective tax bases at the Statement of Financial Position date. The realisation of deferred tax assets on temporary differences is dependent upon the generation of taxable income in future accounting periods after those temporary differences become deductible. The realisation of deferred tax assets on net operating losses is dependent upon the generation of future taxable income. Management regularly evaluates whether deferred tax assets can be realised. Only if management considers it probable that a deferred tax asset will be realised is a corresponding DTA established without impairment.

In evaluating whether DTA can be realised, management considers both positive and negative evidence, including projected future taxable income, the scheduled reversal of deferred tax liabilities and tax planning strategies. This evaluation requires significant management judgement, primarily with respect to projected taxable income, also taking in to account the history of losses of the Bank. The future taxable income can never be predicted with certainty, but management also evaluated the factors contributing to the losses and considers whether or not they are temporary or indicate an expected permanent decline in earnings. The evaluation is derived from budgets and strategic business plans but is dependent on numerous factors, some of which are beyond management's control, such as the fiscal and regulatory environment and external economic growth conditions. Substantial variance of actual results from estimated future taxable profits, or changes in our estimate of future taxable profits and potential restructurings, could lead to changes in the amount of DTA that are realisable, or considered realisable, and would require a corresponding adjustment to the level of recognised DTA. Please refer Note 15 – Deferred Taxes for more information.

Share-based payments

The Bank uses the liability method to account for its share-based compensation plans, which requires the Bank's obligation under these plans to be recorded at its current estimated fair value. Share awards and share unit awards that contain market conditions are marked-to-market based on the latest share price information reflecting the terms of the award. Share unit awards that contain earnings performance conditions are marked-to-market based on the CS group's actual earnings performance to date and the CS group's internal earnings projections over the remaining vesting period of the award. In determining the final liability, the Bank also estimates the number of forfeitures over the life of the plan based on management's expectations for future periods, which also considers past experience.

Retirement benefit costs

The Bank has a defined contribution pension plan, and a legacy defined benefit scheme which is now closed to new participants. The defined benefit plan is a CS group scheme; the Bank is a participant and CSSEL, a related party also owned by CSG, is the sponsor. The Bank's share of the retirement obligations, main estimates and judgments lie with CSSEL which are described below.

Notes to the Financial Statements for the Year ended 31 December 2016

The following relates to the assumptions CSSEL, the sponsor of the defined benefit plan, has made in arriving at the valuations of the various components of the defined benefit plan, of which the Bank is a participant.

The calculation of the expense and liability associated with the defined benefit pension plans requires the use of assumptions, which include the discount rate and rate of future compensation increases as determined by CSSEL. Management determines these assumptions based upon currently available market and industry data and historical performance of the plans and their assets. Management also consults with an independent actuarial firm to assist in selecting appropriate assumptions and valuing its related liabilities. The actuarial assumptions used by CSSEL may differ materially from actual results due to changing market and economic conditions, higher or lower withdrawal rates or longer or shorter life spans of the participants. Any such differences could have a significant impact on the amount of pension expense recorded in future years.

The discount rate used in determining the benefit obligation is based on high quality corporate bonds. In estimating the discount rate, CSSEL takes into consideration the relationship between the corporate bonds and the timing and amount of the future cash outflows on its benefit payments.

Transfer Pricing

Tax transfer pricing charges are determined based on arm's length pricing principles. These net charges are adjusted as required due to evolving facts and changes in tax laws, progress of tax authority audits as well as tax authority negotiated arrangements for current and prior periods. Management continuously assesses these factors and makes adjustments as required.

4. Net interest income

The following table sets forth the details of net interest income:

	2016 £000	2015 £000
Interest income on loans	51,706	16,570
Interest on sub-participated loans	(5,438)	(4,720)
Interest income on loans (net of sub-participation)	46,268	41,850
Interest income on securities purchased under resale agreement	1,445	565
Interest income on interest bearing deposits	2,279	554
Total interest income	49,992	42,969
Interest expense on deposits	(5,665)	(6,151)
Interest expense on long term debt	(909)	(918)
Total interest expense	(6,574)	(7,069)
Net interest income	43,418	35,900

5. Net commission and fee income

The following table sets forth the details of net commission and fee income:

	2016 £000	2015 £000
Investment and portfolio management fee	21,279	23,225
Commission income for other securities business	17,498	24,435
Fee for other customer services	10,182	9,244
Commission and fee income	48,959	56,904
Commission expense for other securities business	(2,009)	(3,713)
Commission and fee expense	(2,009)	(3,713)
Net commission and fee income	46,950	53,191

Notes to the Financial Statements for the Year ended 31 December 2016
6. Other operating income

The following table sets forth the details of other operating income:

	2016	2015
	£000	£000
Net foreign exchange gain	497	506
Income from Investments	41	112
Operational risk losses	6	(53)
Realised gain on financial assets available for sale	-	1,190
Insurance claim received	-	7,129
Other operating income	544	8,884

The Bank received an insurance recovery of £ 7.1m against a litigation settlement in 2015.

In 2015, Euroclear bought back 2,093 shares for total gross proceeds of £1,225k (Cost £35k). This resulted in a net realised gain of £1,006k (gross realised gain of £1,190k less £184k of irrecoverable Swiss withholding tax). Net proceeds from this transaction were £795k, being proceeds of £1,225k less recoverable Swiss withholding tax of £246k and irrecoverable Swiss withholding tax of £184k. There was no such sale in 2016.

7. Compensation and benefits

The following table sets forth the details of compensation and benefits:

	2016	2015
	£000	£000
Salaries and bonuses	(37,176)	(36,355)
Social security	(4,639)	(5,156)
Pension cost	(4,328)	(4,308)
Other	(3,265)	(604)
Compensation and benefits	(49,408)	(46,423)

In 2016, the significant cost within Other is Restructuring – Personnel cost of £1.8m (2015: Nil).

8. Other expenses

The following table sets forth the details of other expenses:

	2016	2015
	£000	£000
Provisions and losses	(10,516)	(15,228)
Professional services	(6,649)	(4,424)
Occupancy expenses	(4,982)	(4,465)
Depreciation and amortisation	(3,168)	(3,168)
Travel and entertainment	(1,377)	(1,358)
Market Information	(1,366)	(1,299)
UK Bank Levy	(1,554)	(1,924)
General administration	(733)	(816)
Non income taxes	(1,405)	(1,184)
Dues and fees	(753)	(215)
Auditor's remuneration	(115)	(108)
IT costs	(129)	(43)
Expenses payable to other Credit Suisse group companies	(7,559)	(2,569)
Other expenses	(40,306)	(36,801)

For more information on provisions, please refer to Note 21 – Provisions.

Notes to the Financial Statements for the Year ended 31 December 2016
Auditors' remuneration

Auditors' remuneration in relation to the statutory audit amounted to £40k (2015: £40k). The following fees were payable by CSUK to the auditor, KPMG LLP.

	2016	2015
	£000	£000
Fees payable to the Bank's auditor for the audit of Bank's annual accounts	(40)	(40)
Audit related assurance services	(40)	(8)
Other services	(35)	(60)
Total	(115)	(108)

9. Income tax

	2016	2015
	£000	£000
Current tax		
Current tax on profits for the period	(1,516)	(1,376)
Adjustments in respect of previous periods	(56)	(266)
Total current tax charge	(1,572)	(1,642)
Deferred tax		
Effect of changes in tax rate or the imposition of new taxes	(70)	420
Total deferred tax (charge)/benefit	(70)	420
Income tax charge	(1,642)	(1,222)

The income tax charge for the year can be reconciled to the profit per the Statement of Income as follows:

	2016	2015
	£000	£000
Profit before tax	1,198	14,751
Income tax expense computed at the statutory rate of 28% (2015:20.25%)	(335)	(2,987)
Other permanent differences	(1,915)	(1,244)
Adjustments to current tax in respect of previous periods	(56)	(266)
Utilisation of unrecognised brought forward losses	-	931
Effect of group relief claimed for consideration at less than statutory rate	435	1,410
Deferred tax not recognised	299	514
Effect on deferred tax resulting from changes to tax rates	(70)	420
Income tax charge	(1,642)	(1,222)

10. Securities purchased under resale agreements

	2016	2015
	£000	£000
Securities purchased under resale agreements	829,694	817,938
Total	829,694	817,938

These agreements with CSSEL represent collateralised resale agreements, used to earn net interest income as well as to optimize the regulatory liquidity ratios. These are collateralised principally by government securities and the maturities of the transactions are based on the options for period of settlement provided for in the Global Master Repurchase Agreement.

The Bank monitors the fair value of securities received and requests additional securities or the return of a portion of the cash disbursed when appropriate in response to a decline in the market value of the securities received. Similarly, the return of excess securities or additional cash is requested by CSSEL when appropriate, in response to an increase in the market value of securities sold under the repurchase agreement.

Notes to the Financial Statements for the Year ended 31 December 2016
11. Trading financial assets and liabilities at fair value through profit or loss

The following table summarises the details of trading financial assets and liabilities:

	2016	2015
	£000	£000
FX derivative instruments	16,169	24,871
Debt securities	163	126
Trading financial assets	16,332	24,997
FX derivative instruments	15,844	24,059
Trading financial liabilities	15,844	24,059

12. Financial assets available for sale

	2016	2015
	£000	£000
Cost	37	37
Gross unrealised gain	1,973	1,658
Total financial assets available for sale	2,010	1,695

Equity securities available for sale include investment in non-marketable exchanges and financial clearing houses whereby the Bank is not required to hold shares as part of its membership, for which the Bank has neither significant influence nor control over the investee. These securities are held at fair value based on the published net assets value of the entity, with unrealised gain or loss recognised through Other Comprehensive Income.

13. Loans and receivables

The following table sets forth details of the domestic (United Kingdom) and foreign loan portfolios by borrowers:

	2016	2015
	£000	£000
Commercial	81,404	52,422
Consumer	619,490	581,998
United Kingdom	700,894	634,420
Commercial	462,233	310,757
Consumer	395,082	386,862
Foreign	857,315	697,619
Allowances for impairment losses	(1,768)	(1,313)
Deferred fee income	(8,586)	(7,030)
Total loans and receivables	1,547,855	1,323,696

The following table analyses total loans by maturity or contractual repricing date:

	2016	2015
	£000	£000
Due within one month	261,948	298,259
One month to three months	128,265	76,820
Three months to one year	111,177	97,774
One to five years	1,036,673	858,436
Greater than 5 years	20,146	750
Allowances for impairment losses	(1,768)	(1,313)
Deferred fee income	(8,586)	(7,030)
Total loans and receivables	1,547,855	1,323,696

No loan was subject to forbearance arrangements as at 31 December 2016 (2015: £ Nil).

Notes to the Financial Statements for the Year ended 31 December 2016

The following table analyses the loans by collateral received:

	2016	2015
	£'000	£'000
Securities	273,283	254,138
Real Estate	1,194,425	1,009,474
Other	90,501	68,427
Allowances for impairment losses	(1,768)	(1,313)
Deferred fee income	(8,586)	(7,030)
Total loans and receivables	1,547,855	1,323,696

14. Investments in subsidiaries

The Bank has two subsidiaries, Buckmore Nominees Limited and Credit Suisse London Nominees Limited. Pursuant to section 401 of the Companies Act, 2006, the Bank is exempt from preparing and delivering group Financial Statements as the Bank is a wholly owned indirect subsidiary of CSG, incorporated in Switzerland, which prepares consolidated Financial Statements.

In accordance with Section 409 of Companies Act 2006 a list of CSUK's subsidiaries, the country of incorporation and effective percentage of equity owned at 31 December 2016 is disclosed below.

Buckmore Nominees Limited

The wholly owned company is incorporated and operates in the United Kingdom and is incorporated in England and Wales and has security of £1 ordinary shares. For the year ended 31 December 2016 the net worth of the entity is £2 (2015: £2).

Credit Suisse London Nominees Limited

The wholly owned company is incorporated and operates in the United Kingdom and is incorporated in England and Wales and has security of £1 ordinary shares. For the year ended 31 December 2016 the net worth of the entity is £100 (2015: £100).

CSUK and CSG is the immediate and ultimate parent respectively for above subsidiaries.

Subsidiaries	Country	Registered Office
Buckmore Nominees Limited	United Kingdom	Compliance Department, Credit Suisse, Private Banking, 16th Floor, Five Cabot Square, London E14 4QR - United Kingdom
Credit Suisse London Nominees Limited	United Kingdom	C/o Credit Suisse Private Banking, Compliance Department, Five Cabot Square, London E14 4QR - United Kingdom

Restrictions

The Bank and its subsidiaries have certain restrictions which may restrict the ability of the Bank to access or use the assets and settle the liabilities of the Bank. These restrictions may be statutory, contractual or regulatory in nature.

The Bank must at all times monitor and demonstrate compliance with the relevant regulatory capital requirements set out in the EU Capital Requirements Regulation ('CRR') and additionally as laid down by the PRA. The Bank has put into place processes and controls to monitor and manage its capital adequacy. For more information regarding the Bank's capital adequacy and how the capital resources are managed and monitored please refer to Note 33 – Capital Adequacy.

The Bank is required to maintain minimum reserves to meet PRA requirements.

The Bank must maintain a cash reserve deposit with Bank of England, which is treated as an encumbered asset.

The Bank has placed cash collateral with CS Switzerland Ltd. for client trading of exchange traded derivatives.

Notes to the Financial Statements for the Year ended 31 December 2016
15. Deferred taxes

Deferred tax assets are recognised on deductible temporary differences and tax loss carry forwards only to the extent that realisation of the related tax benefit is probable. The Company had estimated tax losses of £21.7 million (2015: £21.7 million) and estimated temporary differences of £13.6 million (2015: £14.2 million) as at 31 December 2016. The deferred tax asset not recognised on the carried forward tax losses is £3.7 million (2015: £3.9 million) and on temporary differences is £1.7 million (2015: £1.8 million). The benefit of these losses and temporary differences has not been recognised in these Financial Statements due to the uncertainty of their recoverability. These losses and temporary differences do not have an expiry date.

The movement for the year on the deferred tax position is analysed as follows:

	2016	2015
	£000	£000
At beginning of the year	1,820	1,400
Effect of change in tax rate	(70)	420
At end of the year	1,750	1,820

Deferred tax assets are attributable to the following items:

	2016	2015
	£000	£000
Decelerated tax depreciation	1,750	1,820
At end of the year	1,750	1,820

The deferred tax (charge)/benefit in the Statement of Income comprise the following temporary difference:

	2016	2015
	£000	£000
Decelerated tax depreciation	(70)	420
Total deferred tax (charge)/benefit in the statement of income	(70)	420

Deferred taxes are calculated on all temporary differences under the liability method using an effective tax rate of 25% for temporary differences and 17% for carry forward losses (December 2015: 26% and 18% respectively).

The Finance Act 2013, which passed into law on 17 July 2013, reduced the UK corporation tax rate from 23% to 21% with effect from 1 April 2014 and 21% to 20% with effect from 1 April 2015.

The Finance (No. 2) Act 2015, which passed into law on 18 November 2015, included rate reductions in the UK corporation tax rate from 20% to 19% with effect from 1 April 2017 and 19% to 18% with effect from 1 April 2020. The Finance (No.2) Act 2015 also introduced legislation to levy a surcharge of 8% on the profits of banking companies. The Company is subject to this surcharge from 1 January 2016.

The Finance Act 2016, which was enacted on 15 September 2016, further reduced the UK corporation tax rate from 18% to 17% with effect from 1 April 2020.

From 1 April 2015, the use of tax losses carried forward by UK banks is restricted to a maximum of 50% of taxable profits in respect of losses incurred prior to 1 April 2015. From 1 April 2016, the use of tax losses carried forward by UK banks is further restricted to a maximum of 25% of taxable profits in respect of losses incurred prior to 1 April 2015. Furthermore, the UK budget announcement of 16 March 2016 included proposals for new rules on corporation tax relief, with effect from 1 April 2017. This UK tax law change and the future enactment of the further loss restriction proposals is not expected to have a material impact on the recoverability of the net deferred tax asset.

The reduction in the UK corporation tax rate to 17% resulted in a decrease in the company's net deferred tax asset as at 31 December 2016 of £70k.

Notes to the Financial Statements for the Year ended 31 December 2016
16. Other assets

	2016	2015
	£000	£000
Interest and fees receivable	10,859	9,613
Amounts owed by Credit Suisse group undertakings	7,389	6,449
Other	762	1,787
Total other assets	19,010	17,849

17. Intangible assets

31 December 2016	Customer list	Internally developed software	Total Intangible assets
Cost	£000	£000	£000
As at 1 January	15,840	5,156	20,996
Change in valuation	-	-	-
Additions	-	-	-
Disposals	-	-	-
As at 31 December	15,840	5,156	20,996
Accumulated amortisation			
As at 1 January	(5,450)	(5,156)	(10,606)
Amortisation for the year	(3,168)	-	(3,168)
As at 31 December	(8,618)	(5,156)	(13,774)
Net book value as at 31 December	7,222	-	7,222

31 December 2015	Customer list	Internally developed software	Total Intangible assets
Cost	£000	£000	£000
As at 1 January	15,840	5,156	20,996
Change in valuation	-	-	-
Additions	-	-	-
Disposals	-	-	-
As at 31 December	15,840	5,156	20,996
Accumulated amortisation			
As at 1 January	(2,282)	(5,156)	(7,438)
Amortisation for the year	(3,168)	-	(3,168)
As at 31 December	(5,450)	(5,156)	(10,606)
Net book value as at 31 December	10,390	-	10,390

As part of the acquisition of the private wealth management business of Morgan Stanley in the UK, the Bank identified intangible assets which consisted of customer relationships that have moved over to the Bank. The acquisition of these client relationships is expected to generate future revenues. This item was valued considering present values of expected cash flows from the synergies gained from this acquisition.

Notes to the Financial Statements for the Year ended 31 December 2016
18. Goodwill

	2016	2015
Cost	£000	£000
As at 1 January	13,752	13,752
Change in valuation	-	-
Revised opening balance as at Jan 1	13,752	13,752
Goodwill acquired during the year	-	-
As at 31 December	13,752	13,752
Accumulated impairment losses		
As at 1 January	-	-
Impairment	-	-
As at 31 December	-	-
Net book value as at 31 December	13,752	13,752

As part of the acquisition of private wealth management business of Morgan Stanley in UK, the Bank identified goodwill which represented residual value of purchase price over the identifiable intangible assets and includes the assembled workforce which moved over to the Bank. For the purpose of testing goodwill for impairment, the whole Bank is taken as one cash generating unit ('CGU') as it is the lowest level at which goodwill is monitored for internal management purposes. In 2016, the impairment test did not result in any impairment (2015: Nil).

19. Deposits

	2016	2015
	£000	£000
Demand deposits	1,268,378	1,310,597
Savings deposits	1,752	1,284
Time deposits	1,365,204	1,024,783
Total deposits	2,635,334	2,336,664

As at 31 December 2016, the remaining maturities for time deposits were as follows:

	2016	2015
	£000	£000
Up to 1 month	498,368	533,569
From 1 month to 3 months	706,442	339,957
From 3 months to 1 year	110,042	114,224
From 1 year to 5 years	50,352	37,033
Total time deposits	1,365,204	1,024,783

20. Other liabilities

	2016	2015
	£000	£000
Amounts owed to Credit Suisse group undertakings	15,376	7,719
Employee incentive bonus - cash component	11,056	10,084
Share award obligations	6,121	5,911
Other	3,944	2,956
Total other liabilities	36,497	26,670

Notes to the Financial Statements for the Year ended 31 December 2016
21. Provisions

	Banking	Property	Litigation	Total 2016	Total 2015
	£000	£000	£000	£000	£000
Balance as at beginning of the year	250	15	14,208	14,473	14,777
Increase in provisions	-	-	10,231	10,231	15,367
Withdrawal	(225)	(12)	(90)	(327)	(873)
Utilised during the year	-	(3)	(2,258)	(2,261)	(14,502)
Changes in foreign exchange rates	-	-	131	131	(296)
Balance as at 31 December	25	-	22,222	22,247	14,473

Banking provisions relate to all provisions recognised in accordance with IAS 37, that arise from the normal operations of the Bank, other than those disclosed separately in these Financial Statements as property and litigation provisions.

Litigation provision relates to the estimated liability exposure for cases that the Bank is defending or expects to defend.

In February 2017, the Bank reached a settlement with a client on a case that has been fully provisioned for during 2016. In accordance with normal commercial practice CSUK purchases insurance cover, including for litigation risk and associated legal expenses. CSUK cannot make a claim until an insured event has occurred. Therefore, whilst at 31 December 2016 CSUK did have a provision relating to legal disputes there was no insured event upon which to claim and in accordance with IAS 37 no contingent asset was recognised. Upon successful settlement, CSUK has subsequently made a claim which our insurers have approved but not yet settled.

22. Long term debt

In 2006, a £40m subordinated debt facility for 20 years was put in place with Credit Suisse First Boston Finance B.V. In 2011, the facility was drawn down to the extent of £25m for tenure of 20 years.

23. Share capital and share premium

	2016		2015	
	No of shares	£000	No of shares	£000
Share capital				
Opening Balance (Ordinary voting shares @ GBP 1.00 each)	245,229,922	245,230	245,229,922	245,230
Total called-up share capital		245,230		245,230

	2016	2015
	£000	£000
Share premium		
Share premium (41,479,922@ GBP 0.27 each)	11,200	11,200
Total share premium	11,200	11,200

The Ordinary Shares carry voting rights and the right to receive dividends.

24. Employee share-based compensation and other compensation benefits

Payment of deferred compensation to employees is determined by the nature of the business, role, location and performance of the employee. Unless there is a contractual obligation, granting deferred Compensation is solely at the discretion of senior management. Special deferred compensation granted as part of a contractual obligation is typically used to compensate new senior employees in a single year for forfeited awards from previous employers upon joining the Company. It is the Company's policy not to make multi-year guarantees.

Compensation expense for share-based and other awards that were granted as deferred compensation is recognized in accordance with the specific terms and conditions of each respective award and is primarily recognized over the future requisite service and vesting period, which is determined by the plan, retirement eligibility of employees, two-year moratorium periods on early retirement and certain other terms. All deferred compensation plans are subject to non-compete and non-solicit provisions. Compensation expense for share based and other awards that were granted as

Notes to the Financial Statements for the Year ended 31 December 2016

deferred compensation also includes the current estimated outcome of applicable performance criteria, estimated future forfeitures and mark-to-market adjustments for certain awards that are still outstanding.

Total compensation expense for cash-settled share-based compensation plans recognised during 2016 and 2015 was £1.2M and £3.0M respectively. The total stock award liability recorded as at 31 December 2016 was £5.4M (2015: £5.0M). The fair value used to calculate the stock award liability was the closing Credit Suisse Group share price as at 31 December 2016 CHF 14.61 (2015: CHF 21.69). The average weighted fair value of awards granted in 2016 was CHF 17.25 (2015: CHF 18.63). The intrinsic value of vested share based awards outstanding as at year end was £1.6M (2015: £1.3M).

The recognition of compensation expense for the deferred compensation awards granted in February 2017 began in 2017 and thus had no impact on the 2016 financial statements.

Phantom share awards

Share awards granted in February 2017 are similar to those granted in January 2016. Each share award granted entitles the holder of the award to receive one Credit Suisse Group ("CSG") share, subject to service conditions. Share awards vest over three years, with one third of the share awards vesting on each of the three anniversaries of the grant date (ratable vesting), with the exception of awards granted to individuals classified as risk managers or senior managers under the UK PRA Remuneration Code. Share awards granted to risk managers vest over five years with one fifth of the award vesting on each of the five anniversaries of the grant date, while share awards granted to senior managers vest over five years commencing on the third anniversary of the grant date, with one fifth of the award vesting on each of the third to seventh anniversaries of the grant date. Share awards are expensed over the service period of the awards. The value of the share awards is solely dependent on the CSG share price at the time of delivery.

The share awards include other awards, such as blocked shares, and special awards, which may be granted to new employees. These awards entitle the holder to receive one CSG share, subject to continued employment with the Company, contain restrictive covenants and cancellation provisions and generally vest between zero and five years.

The number of share awards granted to employees was determined by dividing the deferred component of variable compensation being granted as shares by the average price of CSG share over the ten business days ended February 28, 2017. The fair value of each share award was CHF 15.42, the CSG share price on the grant date. While share awards granted between January 1, 2014 and December 31, 2015 did not include the right to receive dividend equivalents, share awards granted after January 1, 2016 include the right to receive dividends equivalents, upon vesting.

Movements in the number of Phantom share outstanding were as follows:

	2016	2015
As at 1 January	316,693	315,880
Granted	199,432	320,832
Shares transferred in/out	61,988	15,723
Delivered	(204,671)	(263,312)
Forfeited	(64,170)	(72,430)
As at 31 December	309,272	316,693

Notes to the Financial Statements for the Year ended 31 December 2016
Performance share awards ('PSA')

Certain employees received a portion of their deferred variable compensation in the form of performance share awards. Performance share awards are similar to share awards, except that the full balance of outstanding performance share awards, including those awarded in prior years, are subject to performance-based malus provisions. Performance share awards granted until 2015 were subject to a negative adjustment in the event of a negative strategic ROE of CSG, which was calculated based on Core Results, adjusted for the goodwill impairment charge related to the re-organization of the former Investment Banking division. However, following the change in our financial reporting structure in 2015, the strategic ROE is no longer calculated, and consequently, any negative adjustment to performance share awards is subject to the discretion of the Compensation Committee. For 2016, the calculation was based on adjusted results, which the Compensation Committee considered as the most accurate reflection of the operating performance of the businesses. There was no negative adjustment applied to performance share awards granted in 2015 and 2014 given that the 2016 divisional adjusted results and adjusted ROE of CSG were both positive.

Performance share awards granted for 2016 are subject to a negative adjustment in the event of a divisional loss by the division in which the employees worked as at December 31, 2016, or a negative CSG ROE, whichever results in a larger adjustment. For employees in Corporate Functions, the negative adjustment only applies in the event of a negative CSG ROE and is not linked to the performance of the divisions. The basis for the ROE calculation may vary from year to year, depending on the Compensation Committee's determination for the year in which the performance shares are granted.

The number of performance share awards was determined by dividing the deferred component of variable compensation being granted as performance shares by the average price of a CSG share over the ten business days ended February 28, 2017. The fair value of each performance share award was CHF 15.42, the CSG share price on the grant date.

While performance share awards granted between January 1, 2014 and December 31, 2015 did not include the rights to receive dividend equivalents, performance share awards granted after January 1, 2016 include the rights to received dividend equivalents, upon vesting.

Movements in the number of PSA outstanding were as follows:

	2016	2015
As at 1 January	116,253	99,496
Granted	94,033	63,663
Shares transferred in/out	9,105	-
Delivered	(55,559)	(46,906)
Forfeited	(11,024)	-
As at 31 December	152,808	116,253

Contingent Capital share awards

In March 2016, the CSG executed a voluntary exchange offer, under which employees had the right to voluntarily convert all or a portion of their respective CCA into Contingent Capital share awards at a conversion price of CHF 14.57. CCA holders elected to convert USD 1.7 million of their CCA into Contingent Capital share awards during the election period. This fair value represented an approximate conversion rate of 40%. Each Contingent Capital share award had a grant-date fair value of CHF 14.45 and contains the same contractual term, vesting period, performance criteria and other terms and conditions as the original CCA.

Movements in the number of CCA share outstanding were as follows:

	2016
As at 1 January	-
Granted	114,448
Share transferred in/out	(706)
Delivered	(4,801)
Forfeited	(2,367)
As at 31 December	106,574

Notes to the Financial Statements for the Year ended 31 December 2016

Contingent Capital Awards

Contingent Capital Awards (CCA) were granted in February 2017, January 2016, 2015 and 2014 as part of the 2016, 2015, 2014 and 2013 deferred variable compensation and have rights and risks similar to those of certain contingent capital instruments issued by CSG in the market. CCA are scheduled to vest on the third anniversary of the grant date, other than those granted to certain employees, where CCA vest on the fifth and seventh anniversaries of the grant date, respectively, and will be expensed over the vesting period. CCA provide a conditional right to receive semi-annual cash payments of interest equivalents until settled, with rates being dependent upon the vesting period and currency of denomination:

- CCA granted in 2017, 2016, 2015 and 2014 that are denominated in US dollars and vest three, five and seven years from the date of grant receive interest rate equivalents at a rate of 4.27%, 5.41%, 5.75% and 5.33%, respectively, per annum over the six-month US dollar London Interbank Offered Rate (LIBOR) and
- CCA granted in 2017, 2016, 2015 and 2014 that are denominated in Swiss francs and vest three years from the date of grant receive interest rate equivalents at a rate of 3.17%, 4.23%, 4.85% and 4.75% per annum over the six-month Swiss franc LIBOR.

The rates were set in line with market conditions at the time of grant and existing high-trigger and low-trigger contingent capital instruments that CSG has issued. For CCA granted in February 2017, employees who received compensation in Swiss francs received CCA denominated in Swiss francs and all other employees received CCA denominated in US dollars.

As CCA qualify as going-concern loss-absorbing capital of CSG, the timing and form of distribution upon settlement is subject to approval by the Swiss Financial Market Supervisory Authority FINMA (FINMA). At settlement, employees will receive either a contingent capital instrument or a cash payment based on the fair value of the CCA. The fair value will be determined by CSG. In the case of a cash settlement, the CCA award currency denomination will be converted into the local currency of each respective employee.

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

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

Total compensation expense recognized for January 2016, January 2015 and January 2014 CCA during the year ended December 31, 2016 was £ 0.6 million (2015: £ 0.6 million).

Plus Bond Awards

Certain employees received a portion of 2012 deferred variable compensation in the form of Plus Bond awards. The Plus Bond award was essentially a fixed income instrument, denominated in US dollars, which provided a coupon payment that was commensurate with market-based pricing. Plus Bond award holders were entitled to receive semi-annual cash payments on their adjusted award amounts at the rate of LIBOR plus 7.875% per annum until settlement. The Plus Bond settled in July 2016 based on the amount of the initial award less any portfolio losses, in excess of a first loss portion retained by CSG of USD 600 million. The value of the Plus Bond awards was based on the performance of a portfolio of unrated and sub-investment-grade asset-backed securities (ABS) that were held in inventory by various trading desks. The Plus Bond award plan contributed to a reduction of CSG's risk-weighted assets and constituted a risk transfer from CSG to the Plus Bond award holders. Final payout upon settlement of these awards was 100% of the amount awarded. Total compensation expense recognized during the year ended December 31, 2016 was £ 0.005 million (2015: £ 0.03 million).

Notes to the Financial Statements for the Year ended 31 December 2016
2011 Partner Asset Facility

As part of the 2011 annual compensation process, CSG awarded a portion of deferred variable compensation for certain employees in the form of 2011 Partner Asset Facility (PAF2) units. PAF2 units are essentially fixed income structured notes that are exposed to a portion of the credit risk that arises in CSG's derivative activities, including both current and possible future swaps and other derivative transactions. The value of the award (for both the interest accrual and the final redemption) will be reduced if the amount of realized credit losses from a specific reference portfolio exceeds a pre-defined threshold. CSG will bear the first USD 500 million of such losses and the PAF2 holders will bear any losses in excess of USD 500 million, up to the full amount of the deferred compensation awarded. As a result, the PAF2 plan is a transfer of risk from CSG to employees.

Certain employees received PAF2 awards, which vested in the first quarter of 2012.

PAF2 awards were linked to a portfolio of CSG's credit exposures, providing risk offset and capital relief. Due to regulatory changes, this capital relief would no longer be available. As a result, CSG restructured the awards in March 2014, requiring PAF2 holders to reallocate the exposure of their awards from the pool of counterparty credit risks in the original PAF2 structure to one of the following options, or a combination thereof:

- i. Capital Opportunity Facility (COF): participants elect for their award to be referenced to a COF. The COF is a seven-year facility that is linked to the performance of a portfolio of risk-transfer and capital mitigation transactions, to be entered into with CSG, chosen by a COF management team. The value of the COF awards will be reduced if there are losses from the COF portfolio, up to the full amount of the award. Participants who elect the COF will receive semi-annual US dollar cash distributions of 6.5% per annum until settlement in cash in 2021, and such semi-annual distributions will reduce the cash settlement amount payable in 2021; and
- ii. CCA: participants elect to receive CCA, with similar terms to the instruments granted as part of the 2013 compensation awards. Settlement of these awards occurred in the first half of 2016, following regulatory approvals. Final payout upon settlement of these awards was 94% of the amount awarded.

Total compensation (income)/expense recognized for the PAF2 CCA during the year ended December 31, 2016 was £ (0.04) million (2015: £ 0.07 million). Total compensation expense recognized for the COF during the year ended December 31, 2016 was £ 0.005 million (2015: £ 0.006 million).

Incentive Share Unit ('ISU')

The Incentive Share Units ("ISUs") were the main form of share-based deferred compensation for all employees from 2006 to 2009. An ISU is similar to a share, but offers additional upside depending on the development of the CSG share price, compared to predetermined targets set on the grant date. For each ISU granted, the employee will receive at least one CSG share (ISU base unit) over a three-year period vesting and could receive additional shares (ISU leverage unit) at the end of the three-year vesting period. The number of ISU leverage units to be converted to additional shares is calculated by multiplying the total number of ISU base units granted, less forfeitures, by a share price multiplier. The share price multiplier is determined based on the actual increase in the weighted-average monthly share price during the contractual term of the award versus the share price at grant date. The ISU base unit vests equally on each of the three anniversaries of the grant date, whereas the ISU leverage units will only vest on the third anniversary of the grant date. Shares are delivered shortly after the ISU base units and the ISU leverage units vest.

In 2013, the ISU leverage units granted for 2009 were settled but did not have a value at settlement as the CSG share price performance was below the minimum predefined target of CHF 53.71. In 2012, the ISU leverage granted for 2008 were settled with a value for each outstanding leverage unit equivalent to 0.986 CSG shares.

Movements in the number of ISUs outstanding were as follows:

	2016		2015	
ISU Awards	Base	Leverage	Base	Leverage
As at 1 January	821	1,540	797	1,497
Granted	-	-	24	43
Share transferred in/out	-	-	-	-
Delivered	-	-	-	-
Forfeited	-	-	-	-
As at 31 December	821	1,540	821	1,540

Notes to the Financial Statements for the Year ended 31 December 2016
25. Retirement benefit obligations

The following disclosures contain the balances for the entire defined benefit plan sponsored by Credit Suisse Securities (Europe) Limited ('CSSEL'), of which the Bank is one of many participants, who are all related parties under common control. The Bank has no contractual agreement or stated policy for incurring any charges by the sponsoring employer for the net defined benefit cost, therefore as the Bank is not the legal sponsor it accounts for its share of the plan using defined contribution accounting. During 2016 the Bank expensed £1,827,392 (2015: £1,781,368) in respect of its contributions to the UK defined benefit scheme.

Profile of the pension plans

Approximately 10% of the UK plan's final salary liabilities are attributable to current employees, 73% to former employees yet to retire and 17% to current pensioners and dependents. The UK plan duration is an indicator of the weighted-average time until benefits payments are made.

For the UK plan as a whole the duration is around 25 years reflecting the approximate split of the defined benefit obligation between current employees (duration of 28 years), deferred members (duration of 26 years) and current pensioners (duration of 16 years).

The following table shows the changes in the defined benefit obligation and the fair value of plan assets during 2016 and 2015, and the amounts included in CSSEL's consolidated financial statements for the defined benefit pension plan as at 31 December 2016 and 2015 respectively:

	2016	2015
	£'000	£'000
Defined benefit obligation – 1 January	1,176,344	1,205,791
Current service cost	3,356	3,289
Interest cost	45,665	44,436
Actuarial losses/(gains) on assumptions	361,664	(40,710)
arising out of changes in demographic assumptions	(13,700)	4,128
arising out of changes in financial assumptions	375,364	(44,838)
Actuarial gains – experience	(12,523)	(733)
Benefit payments	(51,829)	(35,729)
Past service costs (including curtailments)	-	-
Defined benefit obligation – 31 December	1,522,677	1,176,344
Fair value of plan assets – 1 January	1,737,891	1,738,094
Interest on plan assets	67,682	64,236
Actuarial gains/(losses) on investments	556,011	(33,310)
Actual return on plan assets	623,693	30,926
Employer contributions	6,523	5,737
Administrative expense	(1,160)	(1,137)
Benefit payments	(51,829)	(35,729)
Fair value of plan assets – 31 December	2,315,118	1,737,891

Funding requirements

UK legislation requires that pension schemes are funded prudently. The last funding valuation of the UK plan was carried out by a qualified actuary as at 31 December 2014 and showed a surplus of £39.1 million. The next funding valuation will be measured at 31 December 2017.

Contributions will be paid to cover administrative expenses, administration rebates and death in service pensions. Expected regular contributions to be paid to the UK defined benefit plan for all participating entities for the year ending 31 December 2017 is approximately £7 million.

Notes to the Financial Statements for the Year ended 31 December 2016
Assumptions

The assumptions used in the measurement of the defined benefit obligation and net periodic pension cost for all participating entities in the Credit Suisse UK pension plan as at 31 December were as follows:

	2016	2015
Benefit obligations	%	%
Discount rate	2.65	3.90
Retail Price Inflation	3.15	3.10
Consumer Price Inflation	2.05	2.00
Pension increases ⁽¹⁾	3.00	3.04
Salary increases	3.30	3.25
Net periodic pension cost(%)		
Discount rate	3.90	3.70
Salary increases	3.25	4.25

⁽¹⁾ Pension earned pre 6 April 1997 are subject to pension increases on a discretionary basis, which was considered to be Nil.

Mortality Assumptions

The life expectancy assumptions for 2016 have been updated compared to those used for 2015.

The assumptions for life expectancy for the 2016 UK benefit obligation pursuant to IAS 19 are based on the "SAPS 2 light" base table with improvements in mortality in line with the proposed new CMI model with core assumptions calibrated to end of 2015 as published in working paper 91, and a scaling factor of 95%. Underpins to future mortality improvement have also been incorporated, the annual long term rate of improvement being 1.50% p.a.

On this basis the post-retirement mortality assumptions are as follows:

	2016	2015
Life expectancy at age 60 for current pensioners aged 60 (years)		
- Males	28.8	28.9
- Females	29.9	30.1
Life expectancy at age 60 for future pensioners currently aged 40 (years)		
- Males	30.5	31.2
- Females	31.7	32.5

Sensitivity Analysis

Changes in the principal assumptions used to measure the benefit obligation cost would have had the following changes in the defined benefit obligation (DBO):

	DBO £m	Increase %	DBO £m	Decrease %
Benefit obligation				
One-percentage point change				
-1% / +1% Discount rate	1,941	27	1,199	-21
+1% / -1% Inflation rate	1,781	17	1,302	-14
+1% / -1% Salary increases rate	1,530	0	1,515	0
+1 / -1 year to life expectancy at 60	1,553	2	1,492	-2

The sensitivity analysis above has been derived using a number of additional full valuation runs that have been carried out using the same data as that used for calculating the 2016 defined benefit obligation. The sensitivity analysis focuses on changes to the obligation. For the sensitivities to discount rate and inflation rates the impact on the UK funded status will most likely be lower to the impact on the benefit obligation, as a result of the assets being (partially) matched to the obligations.

Notes to the Financial Statements for the Year ended 31 December 2016

The methodology used to calculate the sensitivities is consistent with previous years.

Plan assets and investment strategy

Responsibility for governance and running of the UK Plan -, including investment decisions (after consultation with CSSEL) and contribution schedules (which requires the agreement of CSSEL) – lies with the board of trustees. CSSEL's defined benefit pension plan looks to minimise risk subject to adopting an investment strategy that has a reasonable expectation of achieving a certain level of return by investing in a range of asset classes of appropriate liquidity and security which will generate income and capital growth to meet, together with agreed contributions from the Company, the cost of benefits. Risk tolerance is established through careful consideration of plan liabilities, plan funded status and corporate financial condition.

The Fund has a hedging target of around 100% of interest rate and inflation risk arising from the Technical Provisions measure of the liabilities. Guidelines have been put in place for the hedging portfolio to limit the risk between it and the basis on which the Technical Provisions measure of the liabilities is calculated. In particular limits have been placed on the level of exposure that may be obtained from bonds and gilt total return swaps, both in terms of interest rate and inflation sensitivity.

Equity investments are diversified across UK and non-UK stocks as well as between growth, value and small and large capitalisation stocks. Other assets such as hedge funds, property and corporate bonds are used to enhance long term returns while improving portfolio diversification.

Investment risk is monitored and measured on an ongoing basis with quarterly investment and funding reports together with periodic asset/liability analysis and reviews of the inflation and interest rate hedge. To limit investment risk, the Company's pension plans follow defined strategic asset allocation guidelines.

Risks Associated with UK Plan

The UK plan exposes all participating entities to a number of risks, the most significant of which are:

Asset volatility

The liabilities are calculated using a discount rate set with reference to corporate bond yields; if assets underperform this yield, this will reduce the surplus. The UK plan holds a significant proportion of growth assets (equities, diversified growth fund and global absolute return fund) which, though expected to outperform corporate bonds in the long-term, create volatility and risk in the short-term. The allocation to growth assets is monitored to ensure it remains appropriate given the UK plan's long term objectives.

Changes in bond yields

A decrease in corporate bond yields will increase the value placed on the UK plan's liabilities for accounting purposes, although this will be partially offset by an increase in the value of the plan's bond holdings. The plan does hedge interest rate risk, so whilst it might be expected that the hedge increases in value if bond yields decrease, the plan is exposed to the extent that the hedge is not designed to cover 100% of the accounting defined benefit obligation and also the fact that the hedge does not mitigate decreases in credit spreads.

Inflation Risk

A significant proportion of the UK plan's benefit obligations are linked to inflation, and higher inflation will lead to higher liabilities (although, in most cases, caps on the level of inflationary increases are in place to protect against extreme inflation). The majority of the assets are either unaffected by or only loosely correlated with inflation, meaning that an increase in inflation will also increase the deficit to the extent that the inflation swap does not match the increase.

Life expectancy

The majority of the UK plans' obligations are to provide benefits for the life of the member, so increases in life expectancy will result in an increase in the liabilities.

Notes to the Financial Statements for the Year ended 31 December 2016

The following table shows the estimated future benefit payments for all participating entities in the UK Plan:

	Defined Benefit Pension Plans UK Plans
Estimated future benefit payments (£'000s)	
2017	12,030
2018	13,052
2019	15,319
2020	18,039
2021	21,224
For five years thereafter	159,488

Notes to the Financial Statements for the Year ended 31 December 2016
Plan assets measured at fair value

Plan assets measured at fair value	31 December 2016				31 December 2015			
	Quoted	Unquoted	Total	% of total fair value of scheme assets	Quoted	Unquoted	Total	% of total fair value of scheme assets
	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000
Cash and cash equivalents	-	101,082	101,082	4.4	-	121,019	121,019	7.0
Debt securities	1,288,237	171,584	1,459,821	63.1	889,745	157,821	1,047,566	60.3
of which governments	821,355	-	821,355	35.5	466,286	-	466,286	26.8
of which Corporates	466,882	171,584	638,466	27.6	423,459	157,821	581,280	33.4
Equity securities	156,266	199,301	355,567	15.4	142,339	165,907	308,246	17.7
Derivatives	(39)	255,551	255,512	11.0	(160)	157,123	156,963	9.0
Alternative investments	-	143,136	143,136	6.2	-	104,097	104,097	6.0
of which hedge funds	-	95,179	95,179	4.1	-	69,399	69,399	4.0
of which other (ABS etc.)	-	47,957	47,957	2.1	-	34,698	34,698	2.0
Total plan assets UK Plans	1,444,464	870,654	2,315,118	100.0	1,031,924	705,967	1,737,891	100.0

Derivatives consist of a variety of products to manage market risks (e.g. interest, inflation) and are recorded at fair value in line with the accounting policy disclosed in Note 3. Alternative investments primarily consists of investments in hedge funds. Investments in third-party hedge funds, are measured at fair value based on their published net asset values ('NAV').

Defined Contribution Pension Plans

The Bank also contributes to various defined contribution pensions primarily in the United Kingdom. The contributions in these plans during 2016 and 2015 were £2,500,704 and £2,527,125 respectively.

Notes to the Financial Statements for the Year ended 31 December 2016

26. Related party transactions

The Bank is indirectly wholly owned by Credit Suisse Group AG, incorporated in Switzerland. Copies of Group Financial Statements of Credit Suisse Group AG and Credit Suisse AG, which are those of the largest and smallest groups in which the results of the Bank are consolidated, are available to the public and may be obtained from Credit Suisse Group AG, Paradeplatz, P.O. Box 1, 8070 Zurich, Switzerland and UK Companies House, Crown Way, Cardiff CF14 3UZ, United Kingdom.

The Bank is involved in significant financing and other transactions, and has significant related party balances with subsidiaries and affiliates of CSG. The Bank enters into these transactions in the ordinary course of business on market terms.

a) Related party assets and liabilities

	31 December 2016			31 December 2015		
	Parent	Fellow Group companies	Total	Parent	Fellow Group companies	Total
	£ '000	£ '000	£ '000	£ '000	£ '000	£ '000
Assets						
Cash and due from banks	-	430,695	430,695	-	369,464	369,464
Interest-bearing deposits with banks	-	75,528	75,528	-	48,362	48,362
Securities purchased under resale agreements	-	829,694	829,694	-	817,938	817,938
Trading financial assets at fair value through profit or loss	-	5,431	5,431	-	11,307	11,307
Other assets	1,577	5,812	7,389	1,651	4,798	6,449
Total assets	1,577	1,347,160	1,348,737	1,651	1,251,869	1,253,520
Liabilities						
Deposits	-	851,842	851,842	-	697,927	697,927
Trading financial liabilities at fair value through profit or loss	-	11,397	11,397	-	13,394	13,394
Other liabilities	527	14,849	15,376	595	7,124	7,719
Long term debt	-	25,000	25,000	-	25,000	25,000
Total liabilities	527	903,088	903,615	595	743,445	744,040

Notes to the Financial Statements for the Year ended 31 December 2016

b) Related party income statement

	31 December 2016			31 December 2015		
	Parent	Fellow Group companies	Total	Parent	Fellow Group companies	Total
	£ '000	£ '000	£ '000	£ '000	£ '000	£ '000
Interest income	-	3,808	3,808	-	1,161	1,161
Interest expense	-	(5,485)	(5,485)	-	(5,978)	(5,978)
Fees, commission and other	3,701	(1,156)	2,545	3,690	17,792	21,482
Total	3,701	(2,833)	868	3,690	12,975	16,665

c) Related party off balance sheet items

	31 December 2016			31 December 2015		
	Parent	Fellow Group companies	Total	Parent	Fellow Group companies	Total
	£ '000	£ '000	£ '000	£ '000	£ '000	£ '000
Derivatives notional amounts	-	723,319	723,319	-	1,331,416	1,331,416
Collateral received under securities purchased under resale agreements	-	868,804	868,804	-	863,389	863,389
Undrawn securitised debt facility ¹	-	15,000	15,000	-	15,000	15,000
Total	-	1,607,123	1,607,123	-	2,209,805	2,209,805

¹ In 2006, a \$40m subordinated debt facility was put in place with Credit Suisse First Boston Finance BV. In 2011 the facility was drawn down to the extent of £25m.

Notes to the Financial Statements for the Year ended 31 December 2016
d) Remuneration
Disclosure required by Companies Act 2006
Remuneration of Directors

	2016	2015
	£'000	£'000
Emoluments	1,314	1,313
Long term incentive schemes:		
Amounts Paid under Deferred Cash Awards	61	225
Amounts Delivered under Share Based Awards	236	647
Total	1,611	2,185
Compensation for loss of office	3	46
Bank's contributions to defined contribution	74	51
Total	1,688	2,282

Emoluments include amounts paid to or receivable by the Directors. Only vested Cash Retention Awards are included in emoluments. Long term incentive schemes consist of deferred cash awards and share based awards and are not given to Non-Executive Directors who only receive a fixed fee. Deferred cash awards are included in the period when the amounts vest and are paid, and share based awards are included in the period when the amounts vest and are delivered.

Where directors perform services for a number of companies within the CS group, the total remuneration payable to each director has been apportioned to the respective entities based on a time spent per company allocation for that director.

The aggregate of emoluments and deferred cash awards paid to or receivable by the highest paid director was £573k (2015: £744k). The director was also a member of a defined contribution plan and the contribution paid during the year into the plan was £26k (2015: £1k). During the year the highest paid director also received an entitlement to shares under a long term incentive scheme.

The amounts included in the Companies Act disclosures are on a different basis than the recognition requirements of IFRS 2 and IAS 37 and the disclosure requirements of IAS 24. The aggregate amount of remuneration accrued in the Bank's accounts for directors in accordance with IFRS requirements for 2016 was £1,720k (2015: £2,572k).

The total number of Directors includes all Directors of the Bank.

e) Number of Directors and Benefits

	Number of Directors 2016	Number of Directors 2015
Retirement benefits are accruing to the following number of Directors under:		
Defined contribution schemes	5	8
Defined benefit schemes	-	-
No scheme	2	2
Both defined contribution and defined benefit	-	-
The number of Directors who exercised share options	-	-
Directors in respect of whom services were received or receivable under long term incentive schemes	5	8

Notes to the Financial Statements for the Year ended 31 December 2016
f) Remuneration of Key Management Personnel

	2016	2015
	£'000	£'000
Emoluments	2,664	3,345
Long term incentive schemes	886	1,533
Total	3,550	4,878
Compensation for loss of office	157	135
Bank's contributions to defined contribution	173	203
Total	3,880	5,216

The numbers disclosed in the 'Remuneration of Key Management Personnel' are based on amounts accrued in the financial statements for all emoluments and long term incentive schemes.

Where Key Management Personnel perform services for a number of companies within the CS group, the total remuneration payable to each key management person has been apportioned to the respective entities based on a time spent per company allocation for that key management person.

g) CSG Shares awarded to Key Management Personnel

	2016	2015
Number of shares	94,459	82,487

The shares included in the table are the shares accrued in the period under the requirements of IFRS 2. These numbers differ from the share awards included in the Company's Act disclosures above, which are disclosed in the period in which they vest and are delivered.

Key management personnel are those persons having authority and responsibility for planning, directing and controlling the activities of the Bank, directly or indirectly, including any director of the Bank.

Key management personnel include Directors and the members of the CSUK Executive Committee.

h) Loans and advances to Key Management Personnel

Loans outstanding from Key Management Personnel of the bank as at 31 December 2016 were £2,250k (2015: £2,255k).

One KMP has an interest only mortgage with a balance of £2,250k as at the 31 December 2016 with an annual interest rate of LIBOR + 1.5%. This mortgage is secured against the property for which it was taken out with a value in excess of the loan.

Key Management Personnel include Directors and the members of the Bank's Executive Committee.

27. Employees

Average number of persons employed during the year was as follows:

	Number	Number
	2016	2015
Employees	299	289
Total	299	289

Average number of employees has been calculated as the average of January to December's employees employed and also includes contractual employees.

Notes to the Financial Statements for the Year ended 31 December 2016
28. Guarantees and commitments

The following tables set forth details of contingent liabilities associated with guarantees and commitments:

31 December 2016	Maturity <1 year	Maturity 1-3 years	Maturity 3-5 years	Maturity >5 years	Total amount	Collateral received
	£000	£000	£000	£000	£000	£000
Credit guarantees and similar instruments	9,095	4,189	500	-	13,784	13,784
Total guarantees	9,095	4,189	500	-	13,784	13,784
Loan commitments	236,585	-	46	-	236,631	236,631
Total other commitments	236,585	-	46	-	236,631	236,631

31 December 2015	Maturity <1 year	Maturity 1-3 years	Maturity 3-5 years	Maturity >5 years	Total amount	Collateral received
	£000	£000	£000	£000	£000	£000
Credit guarantees and similar instruments	9,703	15,327	981	-	26,011	26,011
Total guarantees	9,703	15,327	981	-	26,011	26,011
Loan commitments	40,746	26,666	457	-	67,869	67,869
Total other commitments	40,746	26,666	457	-	67,869	67,869

Credit guarantees are contracts that require the Bank to make payments, should a third party fail to do so under a specified existing credit obligation. For example, in connection with its corporate lending business and other corporate activities, the Bank provides guarantees to counterparties in the form of standby letters of credit, which represent obligations to make payments to third parties if the counterparty fails to fulfil its obligation under a borrowing arrangement or other contractual obligation.

Loan commitments include unused credit facilities that cannot be revoked at any time without prior notice.

The following tables set forth details of Lease commitments:

	2016 £'000	2015 £'000
Up to 1 year	-	-
From 1 year to 5 years	-	-
Total future minimum lease commitments	-	-

The following table sets forth details of rental expenses for all operating leases:

	2016 £'000	2015 £'000
Minimum rentals	-	1,484
Sublease rental income	-	(1,072)
Total net rental expenses	-	412

Lease on office premises has expired on 30 December 2015. The Bank shares costs on office premises with principal lease holder CSSEL from 1 January 2016 which is reflecting in Occupancy expenses in Note 8 – Other Expenses.

Notes to the Financial Statements for the Year ended 31 December 2016
29. Financial instruments

The disclosure of the Bank's financial instruments below includes the following sections:

1. Analysis of financial instruments by categories;
2. Fair value measurement including fair value hierarchy, level 3 reconciliation; and
3. Fair value of financial instruments not carried at fair value.

Analysis of financial instruments by categories

Financial instruments are measured on an ongoing basis either at fair value or at amortised cost. The following table sets out the carrying amounts and fair values of the Bank's financial instruments.

Financial assets and liabilities by categories

	Held for Trading	Loans and receivables	Available for sale	Other amortised cost	Total carrying amount	Total fair value
As at 31 December 2016	£'000	£'000	£'000	£'000	£'000	£'000
Financial assets						
Cash and due from banks	-	-	-	432,924	432,924	432,924
Interest-bearing deposits with banks	-	-	-	75,528	75,528	75,209
Securities purchased under resale agreements	-	-	-	829,694	829,694	829,694
Trading financial assets at fair value through profit or loss	16,332	-	-	-	16,332	16,332
Financial assets available for sale	-	-	2,010	-	2,010	2,010
Loans and receivables	-	1,547,855	-	-	1,547,855	1,618,350
Other assets	-	-	-	18,779	18,779	18,779
Total financial assets	16,332	1,547,855	2,010	1,356,925	2,923,122	2,993,298
Financial liabilities						
Deposits	-	-	-	2,635,334	2,635,334	2,635,171
Trading financial liabilities at fair value through profit or loss	15,844	-	-	-	15,844	15,844
Other liabilities	-	-	-	27,701	27,701	27,701
Long term debt	-	-	-	25,000	25,000	25,012
Total financial liabilities	15,844	-	-	2,688,035	2,703,879	2,703,728

Notes to the Financial Statements for the Year ended 31 December 2016

Financial assets and liabilities by categories

	Held for Trading	Loans and receivables	Available for sale	Other amortised cost	Total carrying amount	Total fair value
As at 31 December 2015	£'000	£'000	£'000	£'000	£'000	£'000
Financial assets						
Cash and due from banks	-	-	-	376,386	376,386	376,386
Interest-bearing deposits with banks	-	-	-	48,362	48,362	48,305
Securities purchased under resale agreements	-	-	-	817,938	817,938	817,938
Trading financial assets at fair value through profit or loss	24,997	-	-	-	24,997	24,997
Financial assets available for sale	-	-	1,695	-	1,695	1,695
Loans and receivables	-	1,323,696	-	-	1,323,696	1,376,954
Other assets	-	-	-	17,567	17,567	17,567
Total financial assets	24,997	1,323,696	1,695	1,260,253	2,610,641	2,663,842
Financial liabilities						
Deposits	-	-	-	2,336,664	2,336,664	2,336,065
Trading financial liabilities at fair value through profit or loss	24,059	-	-	-	24,059	24,059
Other liabilities	-	-	-	19,202	19,202	19,202
Long term debt	-	-	-	25,000	25,000	25,013
Total financial liabilities	24,059	-	-	2,380,866	2,404,925	2,404,339

Notes to the Financial Statements for the Year ended 31 December 2016

Fair value measurement

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction in the principal (or most advantageous) market at the measurement date. The fair value of the Bank's financial instruments is based on observable inputs. These instruments include OTC foreign exchange derivative instruments, mortgage related loans, portfolio loans, customer deposits and debt issuance.

In addition, the Bank holds financial instruments for which no prices are available and which have little or no observable inputs. Further deterioration of financial markets could significantly impact the value of these financial instruments and the results of operations. For these instruments, the determination of fair value requires subjective assessment and judgement, depending on liquidity, pricing assumptions, the current economic and competitive environment and the risks affecting the specific instrument. In such circumstances, valuation is determined based on management's own judgements about the assumptions that market participants would use in pricing the asset or liability, including assumptions about risk. These instruments include available for sale securities.

The fair value of financial assets and liabilities is impacted by factors such as benchmark interest rates, prices of financial instruments issued by third parties, commodity prices, foreign exchange rates and index prices or rates. In addition, valuation adjustments are an integral part of the valuation process when market prices are not indicative of the credit quality of counterparty, and are applied to both OTC derivatives and debt instruments. The impact of changes in a counterparty's credit spread (known as credit valuation adjustments) is considered when measuring the fair value of assets and the impact of changes in the Bank's own credit spreads (known as debit valuation adjustments) is considered when measuring the fair value of its liabilities. For OTC derivatives, the impact of changes in both the Bank's and the counterparty's credit standing is considered when measuring their fair value, based on current CDS prices. The adjustments also take into account contractual factors designed to reduce the Bank's credit exposure to counterparty, such as collateral held and master netting agreements.

Fair value hierarchy

The financial instruments carried at fair value were categorised under the three levels of the fair value hierarchy as follows:

- Level 1: Quoted market prices (unadjusted) in active markets for identical assets or liabilities that the Bank has the ability to access. This level of the fair value hierarchy provides the most reliable evidence of fair value and is used to measure fair value whenever available.
- Level 2: Inputs other than quoted prices included within level 1 that are observable for the asset or liability, either directly or indirectly. These inputs include: (i) quoted prices for similar assets or liabilities in active markets; (ii) quoted prices for identical or similar assets or similar liabilities in markets that are not active, that is, markets in which there are few transactions for the asset and liability, the prices are not current or price quotations vary substantially either over time or among market makers, or in which little information is publicly available; (iii) input other than quoted prices that are observable for the asset or liability; or (iv) inputs that are derived principally from or corroborated by observable market data by correlation or other means.
- Level 3: Inputs for the asset or liability that is not based on observable market data (unobservable inputs). These inputs reflect the Bank's own assumptions about the assumptions that market participants would use in pricing the asset or liability (including assumptions about risk). These inputs are developed based on the best information available in the circumstances, which include the Bank's own data. The Bank's own data used to develop unobservable inputs is adjusted if information indicates that market participants would use different assumptions.

Notes to the Financial Statements for the Year ended 31 December 2016

The following table presents the carrying value of the financial instruments held at fair value across the three levels of the fair value hierarchy.

Fair value of assets and liabilities measured at fair value on a recurring basis

	Level 1	Level 2	Level 3	Total at fair value
As at 31 December 2016				
Assets	£'000	£'000	£'000	£'000
Debt securities	-	163	-	163
of which corporates	-	163	-	163
Derivatives	-	16,169	-	16,169
of which foreign exchange products	-	16,169	-	16,169
Trading financial assets at fair value through profit or loss	-	16,332	-	16,332
Membership exchanges	-	-	2,010	2,010
Financial assets available for sale	-	-	2,010	2,010
Total assets at fair value	-	16,332	2,010	18,342
Liabilities				
Derivatives	-	15,844	-	15,844
of which foreign exchange products	-	15,844	-	15,844
Trading financial liabilities at fair value through profit or loss	-	15,844	-	15,844
Total liabilities at fair value	-	15,844	-	15,844

	Level 1	Level 2	Level 3	Total at fair value
As at 31 December 2015				
Assets	£'000	£'000	£'000	£'000
Debt securities	-	126	-	126
of which corporates	-	126	-	126
Derivatives	-	24,871	-	24,871
of which foreign exchange products	-	24,871	-	24,871
Trading financial assets at fair value through profit or loss	-	24,997	-	24,997
Membership exchanges	-	-	1,695	1,695
Financial assets available for sale	-	-	1,695	1,695
Total assets at fair value	-	24,997	1,695	26,692
Liabilities				
Derivatives	-	24,059	-	24,059
of which foreign exchange products	-	24,059	-	24,059
Trading financial liabilities at fair value through profit or loss	-	24,059	-	24,059
Total liabilities at fair value	-	24,059	-	24,059

Notes to the Financial Statements for the Year ended 31 December 2016**Qualitative disclosures of valuation techniques**

The Bank has implemented and maintains a valuation control framework, which is supported by policies and procedures followed by CS group, that define the principles for controlling the valuation of the Bank's financial instruments. Product Control and Risk Management create, review and approve significant valuation policies and procedures.

For certain financial instruments the fair value is estimated in full or in part using valuation techniques based on assumptions that are not supported by market observable prices, rates, or other inputs. In addition, there may be uncertainty about a valuation, which results from the choice of valuation technique or model used, the assumptions embedded in those models, the extent to which inputs are not market observable, or as a consequence of other elements affecting the valuation technique or model. Model calibration is performed when significant new market information becomes available or at a minimum on a quarterly basis as part of the business review of significant unobservable inputs for level 3 instruments. For models that have been deemed to be significant to the overall fair value of the financial instrument, model validation is performed as part of the periodic review of the related model.

Loans

Accrual based loans for which estimated fair value is disclosed in the table 'Financial assets and liabilities by categories' above, consist of consumer loans relating to mortgages and loans collateralised by securities or consumer finance. Fair value is determined using discounted cash flow analysis. Future cash flows are discounted using risk-adjusted discount rates which are derived from observable market interest rates for applicable maturity and currency and from counterparty-related credit spreads. The estimated fair value of accrual accounted loans without stated maturity approximates the carrying amount.

Deposits

Accrual based deposits for which estimated fair value is disclosed in the table 'Financial assets and liabilities by categories' above are generally fair valued by using a discounted cash flow model incorporating the CS group's credit spread. The estimated fair value of accrual accounted deposits without stated maturity approximates the carrying amount; however the value does not include an estimate of the value attributed to the long term relationships with its customers that in the aggregate add significant value to the Bank's stable deposit base.

Short-term financial instruments

Certain short-term financial instruments are not carried at fair value on the Statement of Financial Position, but a fair value is disclosed in the table 'Financial assets and liabilities by categories' above. These instruments include: cash and due from banks, interest bearing deposits with banks and payables and receivables arising in the ordinary course of business. For these financial instruments, the carrying value approximates the fair value due to the relatively short period of time between their origination and expected realisation, as well as the minimal credit risk inherent in these instruments.

Long term debt

Accrual based long term debt for which fair value is disclosed in the table 'Financial assets and liabilities by categories' above is fair valued using the discounted cash flow model incorporating the CS group's credit spread.

Notes to the Financial Statements for the Year ended 31 December 2016
Assets and liabilities measured at fair value on a recurring basis for Level 3

As at 31 December 2016	Balance at beginning of year	Purchases	Sales	Gains included in AOCI	Balance at end of year
	£'000	£'000	£'000	£'000	£'000
Assets					
Debt securities	-	-	-	-	-
of which corporates	-	-	-	-	-
Trading financial assets at fair value through profit or loss	-	-	-	-	-
Membership exchanges	1,695	-	-	315	2,010
Financial assets available for sale	1,695	-	-	315	2,010
Total assets at fair value	1,695	-	-	315	2,010
As at 31 December 2015					
Assets					
Debt securities	-	-	-	-	-
of which corporates	-	-	-	-	-
Trading financial assets at fair value through profit or loss	-	-	-	-	-
Membership exchanges	3,265	-	(1,225)	(345)	1,695
Financial assets available for sale	3,265	-	(1,225)	(345)	1,695
Total assets at fair value	3,265	-	(1,225)	(345)	1,695

Gains and losses on assets and liabilities measured at fair value on a recurring basis using significant unobservable inputs (Level 3)

	2016		2015	
	Gains included in AOCI £'000	Total revenues £'000	Gains included in AOCI £'000	Total revenues £'000
Gains and losses on assets and liabilities				
Net realised/unrealised gains/(losses) included in net revenues	315	315	(1,535)	(1,535)
Whereof:				
Changes in unrealised gains or losses relating to assets and liabilities still held as of the reporting date				
Trading financial assets at fair value through profit or loss	-	-	-	-
Financial assets available for sale	315	315	(345)	(345)
Total changes in unrealised gains/(losses) relating to assets and liabilities still held as of the reporting date	315	315	(345)	(345)

Both observable and unobservable inputs may be used to determine the fair value of positions that have been classified within Level 3. As a result, the unrealised gains and losses from assets and liabilities within Level 3 presented in the table above may include changes in fair value that were attributable to both observable and unobservable inputs.

Notes to the Financial Statements for the Year ended 31 December 2016
Fair value of financial instruments not carried at fair value

IFRS requires the disclosure of the fair value of financial instruments not carried at fair value in the Statement of Financial Position. IFRS also requires the disclosure of the fair values of these financial instruments within the fair value hierarchy.

Fair value of financial instruments not recognised at fair value by level of fair value hierarchy

	Level 1	Level 2	Level 3	Total at fair value
As at 31 December 2016				
	£'000	£'000	£'000	£'000
Financial assets				
Cash and due from banks	414,166	18,758	-	432,924
Interest-bearing deposits with banks	-	75,209	-	75,209
Securities purchased under resale agreements	-	829,694	-	829,694
Loans and receivables	-	1,618,350	-	1,618,350
Other assets	-	18,779	-	18,779
Total financial assets at fair value	414,166	2,560,790	-	2,974,956
Financial liabilities				
Deposits	1,270,130	1,365,041	-	2,635,171
Long term debt	-	25,012	-	25,012
Other liabilities	-	27,701	-	27,701
Total financial liabilities at fair value	1,270,130	1,417,754	-	2,687,884
As at 31 December 2015				
	£'000	£'000	£'000	£'000
Financial assets				
Cash and due from banks	376,386	-	-	376,386
Interest-bearing deposits with banks	-	48,305	-	48,305
Securities purchased under resale agreements	-	817,938	-	817,938
Loans and receivables	-	1,376,954	-	1,376,954
Other assets	-	17,567	-	17,567
Total financial assets at fair value	376,386	2,260,764	-	2,637,150
Financial liabilities				
Deposits	1,311,881	1,024,184	-	2,336,065
Long term debt	-	25,013	-	25,013
Other liabilities	-	19,202	-	19,202
Total financial liabilities at fair value	1,311,881	1,068,399	-	2,380,280

Notes to the Financial Statements for the Year ended 31 December 2016
30. Assets pledged or assigned

The following table sets forth details of assets with the right to sell or repledge in case of default:

	2016	2015
	£000	£000
Fair value of collateral received with the right to sell or repledge	877,355	863,389
Total of fair value of collateral received with the right to sell or repledge	877,355	863,389

As at 31 December 2016 and 2015, collateral was received in connection with resale agreements. As at these dates, none of the collateral received by the Bank had been sold or repledged.

These transactions were generally conducted under terms that are usual and customary for standard securitised lending activities and other transactions described. The Bank, as the secured party has the right to sell or repledge such collateral.

31. Financial instruments risk position
a) Risk management oversight
Overview

The Bank's risk management framework is based on transparency, management accountability and independent oversight. Risk management plays an important role in the Bank's business planning process and is strongly supported by senior management and the Board of Directors. The primary objectives of risk management are to protect the Bank's financial strength and reputation, while ensuring that capital is well deployed to support business activities and grow shareholder value. The Bank has implemented risk management processes and control systems and it works to limit the impact of negative developments by monitoring all relevant risks including credit, market, liquidity, operational and reputational risks, and managing concentrations of risks.

Risk governance

The prudent taking of risk in line with the Bank's strategic priorities is fundamental to its business as part of a leading global banking group. To meet the challenges in a fast changing industry with new market players and innovative and complex products, the Bank seeks to continuously strengthen the risk function, which is independent of but closely interacts with the businesses, to ensure the appropriate flow of information. Committees are implemented at a senior management level to support risk management.

Risk organisation

Risks arise in all of CSUK's business activities and cannot be completely eliminated, but they are monitored and managed through its internal control environment. CSUK's risk management organisation reflects the specific nature of the various risks in order to ensure that risks are taken within limits set in a transparent and timely manner.

CSUK's independent risk management function is headed by CSUK's CRO, who reports to CSUK's CEO. The CRO is responsible for overseeing CSUK's risk profile across all risk types and for ensuring independence of the risk management function.

The risk management function is responsible for providing oversight and establishing a framework to monitor and manage all risk matters. Additionally, CSUK benefits from CS group expertise in four primary risk departments:

- Enterprise Risk Management ('ERM') assesses CSUK's overall risk profile on a strategic basis, recommending corrective action where necessary, and manages CSUK's market risk, including measurement and limits;
- Risk and Finance Data Analytics and Reporting ('RFDAR') is responsible for reporting, risk model validation, systems implementation and policies;

Notes to the Financial Statements for the Year ended 31 December 2016

- Credit Risk Management ('CRM'), which includes the Credit Analytics department, is responsible for developing and administering credit policies and procedures, risk analytics, approving credit limits, monitoring and managing individual exposures and assessing and managing the quality of credit portfolios and allowances; and
- Operational Risk Management ('ORM') is responsible for establishing a framework for managing operational risks, including ensuring that operational risk policies are consistently implemented and helping to understand, assess, and mitigate operational risks.

The risk management function is also responsible for business critical activities such as business continuity, technology risk, reputational and conduct risk management.

Committees are implemented at a senior management level to support risk management. The Group Reputational Risk and Sustainability Committee set policies and reviews processes and significant cases relating to reputational risks. The Group Risk Processes and Standards Committee ('RPSC') is responsible for establishing and approving standards regarding risk management and risk measurement, including methodology and parameters, for all CS group entities, including CSUK. The Credit Portfolio and Provisions Review Committee review the quality of the credit portfolio with a focus on the development of impaired assets and the assessment of related provisions and valuation allowances.

Risk Management Framework

The CSUK Board of Directors is responsible for the risk management of the business and the CRO assists and supports the Board of Directors in carrying out this responsibility. The Bank's independent risk function is headed by the CRO. The CRO is responsible for overseeing the Bank's risk profile across all risk types and for ensuring independence of the risk management.

CSUK operates 'three lines of defence' and operates within a governance and policy framework.

- **First Line of Defence**

CSUK's business divisions are responsible for ensuring that a risk and control environment is established as part of operational management.

Front Line of Defence Support ('FLDS') supports and reports to the CSUK COO, with a dotted line to the CRO. Its objectives are to ensure that existing and emerging risks in CSUK's business are identified and that controls are established to effectively mitigate and manage these risks. The Head of FLDS also chairs the Operational Risk and Compliance Committee and partners with other teams and functions in CSUK to raise risk awareness and embed accountability.

- **Second Line of Defence**

The Second Line of Defence sets risk boundaries for the business, drafts and implements policies and procedures and provides oversight of risks and governance across the risk management framework. The CRO is responsible for adherence to risk appetites, advises the business on inherent risks in relation to the risk appetite and ensures that a prudent and risk-aware culture is embedded in the firm.

CRM is independent from the Front Office and is managed by CSUK's Location Head of CRM, reporting to the CRO. CRM is responsible for: assessing, approving and declining credit limits; monitoring, reporting and managing clients' exposures against limits and collateral; reviewing and managing the quality of the credit portfolio; and managing the work-out/arrears process. Additionally, CRM monitors out-of-policy loans, specific property limits and single client exposure. CRM is also responsible for the credit policies of CSUK, ensuring that they are aligned with Group Credit Policies.

Compliance and Regulatory Affairs ('CCRO'), as an independent function, is mandated with the management of all Compliance and Regulatory matters for Credit Suisse. The function monitors bank activities on all levels in order to minimize risks to Credit Suisse's reputation and the violation of policies, laws or regulations. It also ensures transparency of all regulatory interactions of the bank and assesses potential impact and implementation of regulatory developments.

Notes to the Financial Statements for the Year ended 31 December 2016

The IWM UK Compliance function sits within CCRO and is aligned to the IWM division and is responsible for providing an independent, effective and robust challenge function and acts as part of the CSUK's second line of defence. This includes establishing relevant policies and procedures, delivering compliance training and education programmes, providing day-to-day compliance advice and assistance, overseeing the implementation of an adequate monitoring, surveillance and testing program and escalating potential compliance and/or control issues.

The IWM UK Compliance function is supported by two central support teams specialising in Financial Crime Compliance ('FCC') and Monitoring, Surveillance and Testing ('MST'). FCC is responsible for, inter alia, client identification, Politically Exposed Persons ('PEP') assessments, prevention of financial crime (prevention of money laundering, fraud, corruption), and adherence to policies regarding sanctions. MST is responsible for monitoring and testing against key global policies such as cross border and suitability and appropriateness.

- **Third Line of Defence**

The Third line of Defence provides independent assurance through systematic reviews of the activities and results of first and second lines of defence through both internal and external audits. Internal audit also performs regular reviews and operates as an independent check on the effectiveness of the internal control framework.

Risk limits

A sound system of risk limits is fundamental to effective risk management. The limits define CSUK's maximum balance sheet and off-balance sheet exposure given the market environment, business strategy and financial resources available to absorb potential losses. The overall risk limits for the Bank are set by the Board of Directors through its Risk Appetite Statement and are binding. In defining the risk appetite for the Bank, the Board sets granular risk thresholds specific to CSUK's business for key risks identified by the risk management process.

The Bank's financial risk management objectives and policies and the exposure of the Bank to market risk, credit risk, liquidity risk and currency risk are outlined below.

b) Risks Detail

i. Market Risk

Market risk is the risk of loss arising from adverse changes in interest rates, foreign currency exchange rates, equity prices, commodity prices and other relevant market parameters, such as market volatilities. CS group defines its market risk as potential changes in fair values of financial instruments in response to market movements. A typical transaction may be exposed to a number of different market risks.

The Bank has a policy of not taking proprietary market risk positions. Trading transactions are generally entered into on either an agency or back-to-back basis. Therefore CSUK's exposure to market risk typically arises from three sources:

- Structural interest rate and structural FX risk arise primarily from the loan and deposit books (a core value proposition and service offering). CSUK will avoid carrying material open interest or FX rate positions;
- Foreign exchange ('FX') risk arising from trades executed on behalf of clients. CSUK will aim to ensure net FX risks are 'flat' or matched currency positions resulting in minimal net daily profit and loss; and
- Settlement risk arising from trades executed on behalf of clients on a Delivery Vs Payment ('DVP') basis. CSUK's aggregate risk appetite for market risk arising from DVP services is subject to gross notional (one-way) and VaR limits, which are quantified in the Risk Appetite and monitored on a daily basis.

Typically CSUK's loan book is GBP denominated, whilst the deposit book is spread across a number of currencies. FX risk arising from this currency mismatch in the Banking Book is managed for CSUK by CS Global Treasury. The mandate given to CS Global Treasury is to run a matched currency book. Currency positions for CSUK are aggregated with currency positions of other CS group entities and, where possible, internally matched before any hedging with external counterparties are undertaken.

Notes to the Financial Statements for the Year ended 31 December 2016**ii. Liquidity Risk**

Liquidity risk is the risk that the firm will not be able to efficiently meet both expected and unexpected current and future cash flows and collateral needs without affecting either daily operations or the financial condition of the firm.

CS group-wide Management of Liquidity Risk

The Bank's Liquidity Management Strategy follows the general principles below:

CS adopts the Bank for International Settlements ('BIS') Principles of Sound Liquidity Risk Management ('LRM') in compliance with all regulatory liquidity risk regulations at Group and entities level. CS uses a centralised funding model, ensuring that the CS Group and its local entities remain appropriately funded, both under business as usual and in the event of a liquidity stress period – as defined by both the CS and the regulatory stress testing frameworks.

The Group liquidity and funding strategy is approved by the Group Capital Allocation and Risk Management Committee ('CARMC') and overseen by the Group Board of Directors. The implementation and execution of the funding and liquidity strategy is managed by Treasury. Treasury ensures adherence to the funding policy and the efficient coordination of the secured funding desks.

This approach enhances the ability to manage potential liquidity and funding risks and to promptly adjust the liquidity and funding levels to meet stress situations. The Group liquidity and funding profile is regularly reported to Group CARMC and the Group Board of Directors. There is also an independent risk management function that proposes the risk threshold, and monitors the liquidity risk, of our businesses that reports directly to the Risk Management Committee. The Group Board of Directors is responsible for defining the overall threshold for risk in the form of a risk appetite statement.

The liquidity and funding profile reflects the strategy and risk appetite and is driven by business activity levels and the overall operating environment. The liquidity and funding profile has been adapted to reflect lessons learned from the financial crisis and more recent market stresses, the subsequent changes in the business strategy and regulatory developments. Credit Suisse has been an active participant in regulatory and industry forums to promote best practice standards on quantitative and qualitative liquidity management.

The funding sourced by CS Group is part of a conservative Asset-Liability Management ('ALM') strategy aimed at maintaining a funding structure with long term stable funding sources being in excess of illiquid assets. CS primarily funds the balance sheet through core customer deposits, long-term debt and shareholders' equity.

To address short term liquidity needs a portfolio of highly liquid securities and cash is maintained. This liquidity buffer is managed to sustain operations for an extended period of time in the event of a crisis.

The targeted funding profile is designed to enable CS to continue to pursue activities for an extended period of time without changing business plans during times of stress. The principal measures used to monitor the liquidity position of the firm are the regulatory metric Liquidity Coverage Ratio ('LCR') and internal liquidity metric ('Barometer') both 30-day short-term stress metrics. The Barometer requires CS to manage the liquidity position over a pre-defined time horizon over which the adjusted market value of unencumbered assets (including cash) exceeds the aggregate value of contractual outflows of unsecured liabilities plus a conservative forecast of anticipated contingent commitments. This framework is supplemented by the modelling of additional stress events and additional liquidity risk measurement tools.

In the event of a liquidity crisis, CS would activate its Contingency Funding Plan ('CFP'), which focuses on the specific actions that would be taken in the event of a crisis, including a detailed communication plan for creditors, investors and customers.

The contingency plan would be activated by the Funding Execution Committee, which includes senior business line, funding and finance department management adapted to include the relevant stakeholders depending upon the degree and nature of stress. This committee would meet frequently throughout the crisis to ensure that the plan is executed.

On regulatory developments, the Basel Committee on Banking Supervision ('BCBS') issued the Basel III international framework for liquidity risk measurement, standards and monitoring. The framework includes a LCR and NSFR. Both metrics are incorporated into the overall LRM framework of CS as mentioned above. The BCBS has stated that it will

Notes to the Financial Statements for the Year ended 31 December 2016

review the effect of these liquidity standards on financial markets, credit extension and economic growth to address unintended consequences.

The LCR introduction follows a phased approach from 1 January 2015 and continues through to 1 January 2019. It addresses liquidity risk over a 30-day period. The LCR aims to ensure that banks have a stock of unencumbered high-quality liquid-assets available to meet liquidity needs for a 30-day time horizon under a severe stress scenario. The LCR is comprised of two components: the value of the stock of high quality liquid assets in stressed conditions and the total net cash outflows calculated according to specified scenario parameters. The ratio of liquid assets over net cash outflows is subject to an initial PRA minimum requirement of 80% in 2015 and 2016, and which will increase by 10% every year, reaching 100% by 1 January 2018.

The NSFR establishes criteria for a minimum amount of stable funding based on the liquidity of a bank's assets and activities over a one-year horizon. The NSFR is intended to ensure banks maintain a structurally sound long-term funding profile beyond one year and is a complementary measure to the LCR. The standard is defined as the ratio of available stable funding over the amount of required stable funding. The timeline for PRA NSFR implementation and requirements are currently being finalised.

Legal Entity Management of Liquidity Risk

The liquidity risk of the Bank is managed as an integral part of the overall CS Group global liquidity risk management framework.

The Bank aims to achieve a prudent approach in the management of liquidity to ensure it can meet its obligations as they fall due. The core internal liquidity adequacy analysis tool used to manage liquidity for the Bank is the Barometer. In addition, the Bank manages a series of regulatory legal entity liquidity metrics including LCR and NSFR. Such compliance requirements are measured as part of the Prudential Regulation Authority's Individual Liquidity Guidance ("ILG") which results in the Bank holding a local liquid asset buffer of qualifying securities and cash.

Key characteristics determining the Bank's liquidity risk management approach include, but are not limited to:

- Board approved legal entity risk thresholds;
- Compliance with local regulatory requirements;
- Funding of illiquid assets on a term basis;
- Holding a liquid asset portfolio composed of highly liquid unencumbered assets;
- Independent risk management function reporting directly to the Risk Committee;
- Liquidity limits and monitoring;
- The liquidity value of assets, liabilities and calibration of contingent liabilities being aligned with the CS global liquidity risk methodologies.

The Bank has implemented a liquidity risk management framework including legal entity governance, systems and controls and frequent management information to effectively measure, monitor and manage liquidity risk.

The legal entity risk tolerance and assumptions underlying the relevant stress tests, which form part of the Bank's liquidity risk management framework, are proposed by Market and Liquidity Risk Management ('MLRM')/CRO (part of CRO function) and are approved by Risk Committee, with notifying CSUK ALM CARMC on at least an annual basis or as market conditions dictate.

Treasury is responsible for maintaining a CFP that details specific dealing strategies, actions and responsibilities required under distinct stages of increasing severity. Treasury supports the plan with key liquidity tools, including early warning indicators. The CFP gives consideration to the impact of operational constraints in terms of time and ability to monetise assets, trapped liquidity and daylight collateral requirements.

Notes to the Financial Statements for the Year ended 31 December 2016

The following table sets out details of the remaining contractual maturity of all financial liabilities:

As at 31 December 2016	On demand	Due within 3 month	Due between 3 and 12 months	Due between 1 and 5 years	Due after 5 years	Total
	£'000	£'000	£'000	£'000	£'000	£'000
Deposits	1,270,130	1,205,179	110,965	52,234	-	2,638,508
Trading financial liabilities at fair value through profit or loss	15,844	-	-	-	-	15,844
Other liabilities	35,123	98	398	878	-	36,497
Long term debt	-	230	691	3,683	33,287	37,891
Total Liabilities	1,321,097	1,205,507	112,054	56,795	33,287	2,728,740

As at 31 December 2015	On demand	Due within 3 month	Due between 3 and 12 months	Due between 1 and 5 years	Due after 5 years	Total
	£'000	£'000	£'000	£'000	£'000	£'000
Deposits	1,311,881	874,736	114,245	38,618	-	2,339,480
Trading financial liabilities at fair value through profit or loss	24,059	-	-	-	-	24,059
Other liabilities	24,409	84	1,084	1,026	67	26,670
Long term debt	-	230	691	3,683	34,208	38,812
Total Liabilities	1,360,349	875,050	116,020	43,327	34,275	2,429,021

Liabilities in trading portfolios have not been analysed by contractual maturity because these liabilities are used to risk manage positions and can be closed out at very short notice. They have been classified as being 'on demand' at their fair value.

Notes to the Financial Statements for the Year ended 31 December 2016
iii. Currency risk

The Bank takes on exposure to the effects of fluctuations in the prevailing foreign currency exchange rates on its financial position and cash flows. The Board sets limits on the level of exposure by currency and in total for both overnight and intra-day positions, which are monitored daily.

The table below summarises the Bank's exposure to major foreign currency exchange rate risk at 31 December 2016 and 2015.

As at 31 December	2016			2015		
	Assets	Liabilities	Net	Assets	Liabilities	Net
	£'000	£'000	£'000	£'000	£'000	£'000
Euro	287,700	(287,476)	224	277,907	(277,952)	(45)
US dollar	720,111	(720,929)	(818)	597,699	(600,906)	(3,207)
Swiss franc	26,148	(25,666)	482	25,561	(25,631)	(70)

Foreign exchange risk related to accrued net income and net assets are centrally and systematically managed on a group basis with a focus on risk reduction and diversification. Risk is monitored and managed at an entity level through the levelling of accrued profit and losses which are incurred in a currency other than the entity's functional currency.

iv. Credit risk

CRM is an independent function headed by the Chief Credit Officer ('CCO') and reports to CRO of CS group with responsibility for approving credit limits, monitoring and managing individual exposures and assessing and managing the quality of the segment and business areas' credit portfolios and allowances.

Definition of credit risk

Credit risk is the possibility of loss incurred as a result of a borrower or counterparty failing to meet its financial obligations. In the event of a default, a bank generally incurs a loss equal to the amount owed by the debtor, less any recoveries resulting from foreclosure, liquidation of collateral or the restructuring of the debtor. Credit risk exists within lending products, commitments, and results from counterparty exposure arising from foreign exchange derivative and other transactions.

Credit risk management approach

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

This credit risk management framework is regularly refined and covers all banking business areas that are exposed to credit risk. The framework is designed to cover all of the credit exposures in the banking business and comprises seven core components:

- an individual client rating system;
- a transaction rating system;
- a client credit limit system;
- country and regional concentration limits;
- a risk-based pricing methodology;
- active credit portfolio management; and
- a credit risk provisioning methodology.

Credit risk is evaluated through a credit request and approval process, ongoing credit and counterparty monitoring and a credit quality review process. Experienced credit officers analyse credit requests and assign internal ratings based on their analysis and evaluation of the client's creditworthiness and the type of credit transaction.

Notes to the Financial Statements for the Year ended 31 December 2016

CS group has developed a set of credit rating models tailored for different client segments (e.g. international corporates, financial institutions, asset finance, Small and Medium Enterprises ('SME'), commodity traders, residential mortgages, etc.) for the purpose of internally rating counterparties to whom CS group is exposed to credit risk as the contractual party to a loan, loan commitment or ETD / OTC derivative contract. The models are built from statistical data and then subject to a thorough business review before implementation. Each credit rating model is validated independently prior to implementation and on a regular basis. At the time of initial credit approval and review, relevant quantitative data (e.g. Financial Statements, financial projections, etc.) as well as qualitative factors relating to the counterparty are used in the models and result in the assignment of a credit rating or probability of default ('PD'), which measures the counterparty's risk of default over a one-year period.

To ensure that ratings are consistent and comparable across all businesses, CS group has used an internal rating scale which is benchmarked to the external rating agencies, using the historical PD associated with external ratings. The relationship between the PD and external agency ratings is reviewed annually and adjustments are made to calibrate the internal rating classification to the assumed PD in the external ratings.

Additionally, an estimate of expected loss in the event of a counterparty default is assigned based on the structure of each transaction. The counterparty credit rating is used in combination with credit (or credit equivalent) exposure and the loss given default ('LGD') assumption to estimate the potential credit loss. LGD represents the expected loss on a transaction should default occur and takes into account structure, collateral, seniority of the claim and, in certain areas, the type of counterparty.

CS UK Credit approval process and provisioning

Senior credit managers make credit decisions on a transaction-by-transaction basis, at authority levels reflecting the amount and complexity of the transactions and the overall exposures to counterparties and their related entities. These approval authority levels are set both at a functional level and by each legal entity.

A system of credit limits is used to manage individual counterparty credit risk. Other limits are also established to address concentration issues in the portfolio, including a comprehensive set of country and regional limits and limits for certain products. Credit exposures to individual counterparties, industry segments or product groupings and adherence to the related limits are monitored by credit officers, industry analysts and other relevant specialists.

In addition, credit risk is regularly supervised by the credit and risk management committees taking current market conditions and trend analysis into consideration. The Committee regularly analyses diversification and concentrations in selected areas.

A credit quality review process provides an early identification of possible changes in the creditworthiness of clients and includes regular asset and collateral quality reviews, business and financial statement analysis and relevant economic and industry studies. Other key factors considered in the review process include current and projected business and economic conditions, historical experience, regulatory requirements and concentrations of credit by industry, country, product and counterparty rating. Regularly updated watch-lists and review meetings are used for the identification of counterparties where adverse changes in creditworthiness could occur due to events such as announced mergers, earnings weakness and lawsuits.

The review process culminates in a quarterly determination of the appropriateness of allowances for credit losses. A systematic provisioning methodology is used to identify potential credit risk-related losses. Impaired transactions are classified as potential problem exposure, non-performing exposure, or non-interest earning exposure and the exposures are generally managed within credit recovery units. The credit provisions review committee ('CPRC'), provide a high level review of the quarterly credit provisions and confirm the appropriateness of the Allowance for Loan Losses. In addition, trends and outlook are discussed.

Credit risk overview

All transactions that are exposed to potential losses due to failure of meeting an obligation by counterparty are subject to credit risk exposure measurement and management.

Notes to the Financial Statements for the Year ended 31 December 2016

The Bank is exposed to credit risk as a result of either a counterparty or issuer being unable or unwilling to honour its contractual obligations. These exposures to credit risk exist within financing relationships, derivatives and other transactions.

Collateral held as security

The Bank regularly agrees upon collateral in the lending contracts to be received from borrowers. Collateral is security in the form of an asset or third-party obligation that serves to mitigate the inherent risk of credit loss in an exposure, by either substituting the borrower default risk or improving recoveries in the event of a default. While collateral can be an alternative source of repayment, it does not mitigate or compensate for questionable reputation of a borrower or structure.

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.

Physical collateral received (in respect of mortgages facilities) is valued at the inception of the facility and, where required for risk-weighted asset management purposes, on a triannual basis, however the Bank does have the right to re-value annually, if required. Financial collateral received (in respect of Portfolio loans - loans collateralised by securities) for the majority of cases, is valued daily, however exceptions are governed by the calculation frequency described in respective 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 standardised and centralised to ensure complete coverage of traded products.

Primary types of collateral

Collateral securing loan transactions primarily includes:

- Physical collateral (real estate for mortgages) – mainly residential, but also multi-family buildings, and commercial properties (office, retail units, serviced apartments and student housing); and
- Financial collateral pledged against loans collateralised by securities (mostly cash and marketable securities), and bank guarantees from other CS offices.

Reverse repurchase agreements entered by the Bank are typically fully collateralised instruments and in the event of default, the agreement provides the Bank the right to liquidate the collateral held. These instruments are collateralised principally by government securities and money market instruments. The Bank monitors the fair value of securities borrowed and loaned on a daily basis with additional collateral obtained as necessary. The fair value of the collateral has been included in the table below. For further information on the collateral and credit enhancements held against reverse repurchase agreements and securities borrowing, refer to Note 10 – Securities purchased under resale agreements.

Collateral held against financial guarantees and loan commitments typically includes securities and letters of credit. For further information about the collateral and credit enhancements held against financial guarantees and loan commitments, refer to Note 28 - Guarantees and commitments.

For further information on collateral held as security that the Bank is permitted to sell or repledge, refer to Note 30 - Assets pledged or assigned.

The following table presents the maximum exposure to credit risk on balance sheet and off-balance sheet financial instruments, before taking account of the fair value of any collateral held or other credit enhancements unless such credit enhancements meet offsetting requirements as set out in IAS 32. For financial assets recognised on the Statement of Financial Position, the exposure to credit risk equals their carrying amount as at 31 December 2016. For financial guarantees granted and other credit-related contingencies, the maximum exposure to credit risk is the maximum amount that Credit Suisse would have to pay if the guarantees and contingencies are called upon. For loan commitments and other credit-related commitments that are irrevocable over the life of the respective facilities, the maximum exposure to credit risk is the full amount of the committed facilities. If collateral or the credit enhancement value for a particular instrument is in excess of the maximum exposure, then the value of collateral and other credit enhancements included in the table has been limited to the maximum exposure to credit risk.

Notes to the Financial Statements for the Year ended 31 December 2016
Risk Mitigation

The Bank actively manages its credit exposure utilising property and monetisable collateral (cash and marketable securities). Collateral taken generally represents property, listed securities and other guarantees.

The following table summarises the Bank's maximum exposure to credit risk.

Maximum exposure to Credit Risk	2016			2015		
	Gross	Collateral	Net	Gross	Collateral	Net
As at 31 December	£'000	£'000	£'000	£'000	£'000	£'000
Cash and due from banks	432,924	-	432,924	376,386	-	376,386
Interest-bearing deposits with banks	75,528	-	75,528	48,362	-	48,362
Securities purchased under resale agreements	829,694	829,694	-	817,938	817,938	-
Trading financial assets at fair value through profit or loss	16,332	9,042	7,290	24,997	12,883	12,114
Financial assets available for sale	2,010	-	2,010	1,695	-	1,695
Loans and receivables	1,547,855	1,547,855	-	1,323,696	1,323,696	-
Other assets	19,010	-	19,010	17,849	-	17,849
Off balance sheet items						
Loan commitments	236,631	236,631	-	67,869	67,869	-
Credit guarantees and similar instruments	13,784	13,284	500	26,011	26,011	-
Total	3,173,768	2,636,506	537,262	2,704,803	2,248,397	456,406

Notes to the Financial Statements for the Year ended 31 December 2016

The following table represents counterparty exposure before collateral by rating.

	Neither past due nor impaired						Impaired	Provisions	Deferred fees and cost	Total
	AAA	AA+ to AA-	A+ to A-	BBB+ to BBB-	BB+ to BB-	B+ and Below				
As at 31 December 2016	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000
Cash and due from banks	-	603	430,695	70	1,556	-	-	-	-	432,924
Interest-bearing deposits with banks	-	-	75,528	-	-	-	-	-	-	75,528
Securities purchased under resale agreements	-	-	829,694	-	-	-	-	-	-	829,694
Loans	160,088	35,094	17,315	486,605	709,018	149,814	275	(1,768)	(8,586)	1,547,855
Trading financial assets ¹	2,975	5,266	69	1,485	1,001	5,373	-	-	-	16,169
Financial assets available for sale	-	2,010	-	-	-	-	-	-	-	2,010
Total	163,063	42,973	1,353,301	488,160	711,575	155,187	275	(1,768)	(8,586)	2,904,180
Off-balance sheet items										
Loan commitments	-	-	982	26,475	209,174	-	-	-	-	236,631
Credit guarantees and similar instruments	4,263	-	-	5,286	4,235	-	-	-	-	13,784
Total-Off balance sheet	4,263	-	982	31,761	213,409	-	-	-	-	250,415

	AAA	AA+ to AA-	A+ to A-	BBB+ to BBB-	BB+ to BB-	B+ and Below	Impaired	Provisions	Deferred fees and cost	Total
As at 31 December 2015	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000
Cash and due from banks	-	52	369,464	1	6,869	-	-	-	-	376,386
Interest-bearing deposits with banks	-	-	48,362	-	-	-	-	-	-	48,362
Securities purchased under resale agreements	-	-	817,938	-	-	-	-	-	-	817,938
Loans	50,837	8,296	36,025	623,789	560,544	52,320	228	(1,313)	(7,030)	1,323,696
Trading financial assets	570	-	112	12,817	65	11,307	-	-	-	24,871
Financial assets available for sale	-	1,695	-	-	-	-	-	-	-	1,695
Total	51,407	10,043	1,271,901	636,607	567,478	63,627	228	(1,313)	(7,030)	2,592,948
Off-balance sheet items										
Loan commitments	-	-	-	22,603	41,916	3,350	-	-	-	67,869
Credit guarantees and similar instruments	585	-	2,210	14,416	8,800	-	-	-	-	26,011
Total-Off balance sheet	585	-	2,210	37,019	50,716	3,350	-	-	-	93,880

¹ Debt Security of £163k (2015: £126k) has been excluded on account of being unrated.

Notes to the Financial Statements for the Year ended 31 December 2016

Included in the table below are the Bank's financial assets at carrying amounts, categorised by the earlier of contractual repricing or maturity dates. Note that not all asset classes are included in this disclosure.

As at 31 December 2016	On demand	Due within 3 months	Due between 3 and 12 months	Due between 1 and 5 years	Due after 5 years	No Specific Maturity	Deferred fees and costs	Allowance for impairment	Total
Assets	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000
Cash and due from banks	46,738	386,186	-	-	-	-	-	-	432,924
Interest-bearing deposits with banks	-	2,445	73,083	-	-	-	-	-	75,528
Securities purchased under resale agreements	829,694	-	-	-	-	-	-	-	829,694
Trading financial assets at fair value through profit or loss	16,332	-	-	-	-	-	-	-	16,332
Financial assets available for sale	-	-	-	-	-	2,010	-	-	2,010
Loans and receivables	135,068	255,146	111,177	1,036,671	20,147	-	(8,586)	(1,768)	1,547,855
Other assets	-	-	-	-	-	19,010	-	-	19,010
Total assets exposed	1,027,832	643,777	184,260	1,036,671	20,147	21,020	(8,586)	(1,768)	2,923,353

As at 31 December 2015	On demand	Due within 3 months	Due between 3 and 12 months	Due between 1 and 5 years	Due after 5 years	No Specific Maturity	Deferred fees and costs	Allowance for impairment	Total
Assets	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000
Cash and due from banks	31,443	344,943	-	-	-	-	-	-	376,386
Interest-bearing deposits with banks	-	-	48,362	-	-	-	-	-	48,362
Securities purchased under resale agreements	817,938	-	-	-	-	-	-	-	817,938
Trading financial assets at fair value through profit or loss	24,997	-	-	-	-	-	-	-	24,997
Financial assets available for sale	-	-	-	-	-	1,695	-	-	1,695
Loans and receivables	110,831	264,248	97,774	847,949	11,237	-	(7,030)	(1,313)	1,323,696
Other assets	-	-	-	-	-	17,849	-	-	17,849
Total assets exposed	985,209	609,191	146,136	847,949	11,237	19,544	(7,030)	(1,313)	2,610,923

Notes to the Financial Statements for the Year ended 31 December 2016**v. Country risk**

Country risk is the risk of a substantial, systemic loss of value in the financial assets of a country or group of countries, which may be caused by dislocations in the credit, equity, and/or currency markets.

The Bank rating models will have country risk built in to determine Loan-to-Value-ratios ('LTVs') for Portfolio loans. However, for real estate facilities, country risk is the location of the Bank property collateral, i.e. UK (and, following the acquisition of the mortgage book from CS (Gibraltar) Ltd, also one property located in Spain). Furthermore, for Portfolio loans, CS Group policy (which CSUK has adopted) states: Portfolio credit loans are treated in the same way as reverse repos. Collateral received against the loan is stressed for both country and currency and is then offset against the loan to arrive at the exposure. The majority of this business is collateralised with diversified collateral and hence typically does not contribute to the country exposure. It is typically only business where the collateral is concentrated ("concentrated stock lending") that gives rise to country exposure. With any developed market exposure (currency of collateral) it is unlikely that the Portfolio loan will be included in the country exposure.

vi. Legal and Regulatory risk

CSUK faces significant legal risks in its businesses. Legal risks include, among other things, disputes over the terms of trades and other transactions in which CSUK acts as principal; the unenforceability or inadequacy of the documentation used to give effect to transactions in which CSUK participates; investment suitability concerns; compliance with the laws and regulations (including change in laws or regulations) and disputes with its employees. Some of these transactions or disputes result in potential or actual litigation for which CSUK may incur legal expenses to defend.

CSUK seeks to minimise legal risk through the adoption of compliance and other policies and procedures, continuing to refine controls over business practices and behaviour, employee training sessions, the use of appropriate legal documentation, and the involvement of the Legal and Compliance department and outside legal counsel.

CSUK is subject to extensive regulation in the conduct of its investment business. A failure to comply with applicable regulations could result in regulatory investigations, fines, restrictions or other sanctions on some of CSUK's business activities.

viii. Operational risk

Operational risk is the risk of loss resulting from inadequate or failed internal processes, people or systems or from external events. Consistent with BIS definitions of Operational Risk, loss events arising from legal risk are consolidated in Operational Risk Reporting. The Operational Risk Framework's primary aim is the early identification, recording, assessment, monitoring, prevention and mitigation of operational risks, as well as timely and meaningful management reporting.

Operational risk is inherent in most aspects of the Bank's activities and is comprised of a large number of disparate risks. While market and credit risk are often chosen for the prospect of returns, operational risk is normally accepted as a necessary consequence of doing business. In comparison to market or credit risk, the sources of operational risk are difficult to identify comprehensively and the amount of risk is inherently difficult to measure. The effective management of operational risk requires a common bank-wide framework with ownership of these risks residing with the management responsible for the relevant business process.

Operational Risk Management

Each individual business area takes responsibility for its operational risks and the provision of adequate resources and procedures for the management of those risks. Businesses are supported by designated operational risk teams at the divisional and legal entity level that are responsible for the implementation of the operational risk management framework, methodologies, tools and reporting within their areas as well as working with management on any operational risk issues that arise.

Notes to the Financial Statements for the Year ended 31 December 2016

The CS group has established an Operational Risk Framework providing a systematic approach to operational risk management, which CSUK has adopted. The framework comprises a series of interrelated components that are used to identify, monitor and control operational risks in line with risk appetite. The framework components include:

- Governance and Policy Framework, establishing standards and review mechanisms for all activities;
- Risk appetite threshold levels set for the Bank, which set out senior management's expectations with respect to losses/ gains and metrics – breaches of threshold levels are reported to senior management and may trigger actions;
- Standardised bank-wide operational risk register, which is a catalogue of inherent operational risks arising as a consequence of the Bank's activities on a front-to-back basis;
- Internal control assessment with guidance to ensure that controls are executed, assessed and evidenced on a consistent and comprehensive basis;
- Specific company risk and control indicators, which are metrics that are used to monitor operational risk exposures and the effectiveness of controls, respectively. Such metrics may be associated with threshold levels that define acceptable performance and provide early warning signals about potential impending issues;
- Investigations into internal and external incidents to inform risk measurement and management processes;
- Risk and control self-assessments ('RCSAs'), which are comprehensive, bottom-up assessments of the key operational risks in each business; RCSAs utilise other components of the operational risk framework, such as risk and control indicators and loss data, to evaluate the strength of mitigating controls in order to produce an assessment of the residual risks and remediation requirements in each business. These are explicitly assessed for the Bank;
- Identification and management of top operational risks, which are the most significant residual operational risks and may require executive level management oversight to avoid occurrence or prevent re-occurrence of such risks; associated risk remediation efforts are identified and tracked;
- A suite of operational risk reports exists that provide information on a range of Framework components to a variety of audiences including formal reports to senior management;
- The Responses Framework provides a governance structure and process for how Credit Suisse responds to various kinds of operational risk events; and
- CS has defined a set of ten Business Conduct Behaviours that are designed to reduce operational risk incidents; these behaviours incorporate 'lessons learned' from incidents at Credit Suisse and industry peers.

CS group is continuously enhancing its operational risk management practices. There is an ongoing programme to roll out improvements to each of the components of the operational risk framework to ensure that the links between individual components work effectively and to embed the framework within day-to-day business risk management.

ix. Conduct Risk

Conduct risk is the risk of poor conduct and behaviour by firms and/or individuals resulting in clients not getting a fair deal, a lack of integrity in dealings on financial markets and in the wider financial system and a lack of effective competition in the interests of consumers.

The primary responsibility for risk management within the Bank lies with the Bank's senior business line managers. They are held accountable for all risks associated with their businesses, including counterparty risk, market risk, liquidity risk, operational risk, legal risk, settlement risk, country risk, reputational risk and conduct risk. CS has established a UK Conduct Risk Committee ('CRC') to cover all of Credit Suisse UK business, and the Bank is represented on this committee. The CRC is designed to enable the Bank to review the effectiveness of the Bank's conduct risk framework and challenge business leaders on the suitability and effectiveness of the measures and tools used in their policies and procedures. Additionally, the CRC monitors peer group and regulatory statements and developments in the conduct risk space. The CRC will consider reports covering conduct risk identification conduct risk mitigation and conduct risk management information.

Notes to the Financial Statements for the Year ended 31 December 2016**x. Reputational risk**

The Credit Suisse ('CS') Code of Conduct states that "Our most valuable asset is our reputation". CS reputation is driven by the perception of clients, shareholders, the media and the public. The CS Global Policy on Reputational Risk ('the Policy') states that each employee is responsible for assessing the potential reputational impact of all businesses in which they engage, and for determining whether any actions or transactions should be formally submitted through the Reputational Risk Review Process ('RRRP') for review.

Reputational risk may arise from a variety of sources, including, but not limited to, the nature or purpose of a proposed transaction, the identity or nature of a potential client, the regulatory or political climate in which the business will be transacted or significant public attention surrounding the transaction itself.

The Bank has formally delegated reputational risk issues to CS group's global RRRP which includes an overview of the transaction or action being considered, the risks identified and any mitigating factors and views from internal subject matter experts. All formal submissions in the RRRP require review by senior business management in the relevant division, and are then subsequently referred to one of CS group's Reputational Risk Approvers ('RRA'), each of whom is independent of the business divisions and has the authority to approve, reject, or impose conditions on CS group's participation. If the RRA considers there to be a material reputational risk associated with a submission, it is escalated to the EMEA Reputational Risk Committee ('the Committee') for further discussion, review and final decision. The Committee is comprised of senior Regional, Divisional, Shared Services and the entity management.

Reputational risk is assessed on an entity based approach whereby the region of the RRRP submission is driven by the location of the booking entity. Where a submission relates to a Remote Booking, a submission will be made through to EMEA RRRP and the RRAs in other regions will be consulted as appropriate, which may include escalation to the Committee.

32. Offsetting of financial assets and financial liabilities

The disclosures set out in the tables below include derivative instruments and reverse repurchase agreements that are subject to an enforceable master netting agreement or similar agreement (enforceable master netting agreements).

Similar agreements include global master repurchase agreements, and any related rights to financial collateral.

Financial instruments such as loans and deposits are not disclosed in the tables below. They are not offset in the Statement of Financial Position.

Derivatives

The Bank transacts bilateral OTC derivatives mainly under International Swaps and Derivatives Association ('ISDA') Master Agreements. These agreements provide for the net settlement of all transactions under the agreement through a single payment in the event of default or termination under the agreement.

The above mentioned ISDA Master Agreements do not meet the criteria for offsetting in the Statement of Financial Position. This is because they create a right of set-off of recognised amounts that is enforceable only following an event of default, insolvency or bankruptcy of the Bank or the counterparties or following other predetermined events. In addition the Bank and its counterparties do not intend to settle on a net basis or to realise the assets and settle the liabilities simultaneously.

Notes to the Financial Statements for the Year ended 31 December 2016

The following table presents the gross amount of derivative instruments subject to enforceable master netting agreements, the amount of offsetting, the amount of derivatives not subject to enforceable master netting agreements and the net amount presented in the Statement of Financial Position.

Offsetting of derivative instruments

	31 December 2016			31 December 2015		
	Gross	Offsetting	Net	Gross	Offsetting	Net
Derivative assets	£'000	£'000	£'000	£'000	£'000	£'000
Derivative instruments subject to enforceable master netting agreements	5,431	-	5,431	11,307	-	11,307
Derivative instruments not subject to enforceable master netting agreements ¹	10,738	-	10,738	13,564	-	13,564
Total derivative instruments presented in the Statement of Financial Position	16,169	-	16,169	24,871	-	24,871
of which recorded in trading financial assets at fair value through profit or loss	16,169	-	16,169	24,871	-	24,871
Derivative liabilities						
Derivative instruments subject to enforceable master netting agreements	11,397	-	11,397	13,394	-	13,394
Derivative instruments not subject to enforceable master netting agreements ¹	4,447	-	4,447	10,665	-	10,665
Total derivative instruments presented in the Statement of Financial Position	15,844	-	15,844	24,059	-	24,059
of which recorded in trading financial liabilities at fair value through profit or loss	15,844	-	15,844	24,059	-	24,059

¹ Represents derivative instruments where a legal opinion supporting the enforceability of netting in the event of default or termination under the agreement is not in place.

Notes to the Financial Statements for the Year ended 31 December 2016

Reverse repurchase agreements

Reverse repurchase agreements are generally covered by global master repurchase agreements. In certain situations, for example in the event of default, all contracts under the agreements are terminated and are settled net in one single payment. Global master repurchase agreements also include payment or settlement netting provisions in the normal course of business that state that all amounts in the same currency payable by each party to the other under any transaction or otherwise under the global master repurchase agreement on the same date shall be set off.

Reverse repurchase agreements are collateralised principally by government securities and have terms ranging from overnight to a longer or unspecified period of time. In the event of counterparty default, the reverse repurchase agreement provides the Bank with the right to liquidate the collateral held. In certain circumstances, the access to financial collateral received may be restricted during the term of the agreement (e.g. in tri-party arrangements).

The following table presents the gross amount of securities purchased under resale agreements subject to enforceable master netting agreements, the amount of offsetting and the net amount presented in the Statement of Financial Position.

Offsetting of securities purchased under resale agreements

	31 December 2016			31 December 2015		
	Gross	Offsetting	Net	Gross	Offsetting	Net
	£'000	£'000	£'000	£'000	£'000	£'000
Securities purchased under resale agreements ¹	829,694	-	829,694	817,938	-	817,938
Total subject to enforceable master netting agreements	829,694	-	829,694	817,938	-	817,938
Total	829,694	-	829,694	817,938	-	817,938

¹ None of the above amount is held at fair value.

Notes to the Financial Statements for the Year ended 31 December 2016

The following table presents the net amount presented in the Statement of Financial Position of financial assets and liabilities subject to enforceable master netting agreements and the gross amount of financial instruments and cash collateral not offset in the Statement of Financial Position. The gross amount of financial instruments not offset in the Statement of Financial Position includes non-cash financial collateral. The table excludes derivative instruments not subject to enforceable master netting agreements where a legal opinion supporting the enforceability of netting in the event of default or termination under the agreement is not in place. Net exposure reflects risk mitigation in the form of collateral.

Amounts not offset in the Statement of Financial Position

	31 December 2016				31 December 2015			
Financial assets subject to enforceable master netting agreements	Net ¹	Financial instruments ²	Cash collateral received/pledged ²	Net exposure	Net ¹	Financial instruments ²	Cash collateral received/pledged ²	Net
	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000
Derivative instruments	5,431	-	-	5,431	11,307	-	-	11,307
Securities purchased under resale agreements	829,694	(829,694)	-	-	817,938	(817,938)	-	-
Total financial assets subject to enforceable master netting agreements	835,125	(829,694)	-	5,431	829,245	(817,938)	-	11,307
Financial liabilities subject to enforceable master netting agreements								
Derivative instruments	11,397	-	-	11,397	13,394	-	-	13,394
Total financial liabilities enforceable subject to master netting agreements	11,397	-	-	11,397	13,394	-	-	13,394

¹ Net amount presented in the Statement of Financial Position and subject to enforceable master netting agreements, as per the preceding tables.

² The total amount reported in financial instruments and cash collateral is limited to the net amount for the related instruments presented in the Statement of Financial Position.

Notes to the Financial Statements for the Year ended 31 December 2016
33. Capital adequacy

The Bank's capital adequacy is managed and monitored based on practices developed by the Basel Committee on Banking Supervision (the 'Basel Committee') and governed by European Union regulations as set by the European Banking Authority ('EBA'). These are set out in the Capital Requirements Regulation ('CRR') and the Capital Requirements Directive ('CRD'), collectively referred to as CRDIV.

Own Funds

Own Funds, previously referred to as Regulatory Capital Resources, comprise a number of 'tiers'. Tier 1 capital principally comprises shareholders' equity (Common Equity Tier 1 ('CET1')). This is supplemented by Tier 2 capital, which consists mainly of subordinated debt instruments. Total capital equals the sum of these with adjustments including regulatory deductions and prudential filters.

The Bank's overall capital needs are reviewed to ensure that its own funds can appropriately support the anticipated needs of its business. The capital management framework is designed to ensure that own funds are sufficient to support underlying risks of the business activity, to meet the objectives of management and to meet the requirements of regulators, rating agencies and market participants.

During 2016 and 2015, the bank received no capital injections.

Under the Basel Committee guidelines, an institution must have a ratio of total eligible capital to aggregate risk-weighted assets of at least 8%. In addition, the EBA requires a CET1 ratio of 4.5% and a Tier 1 ratio of 6% in 2016. The risk weighted assets reflect the credit, market, operational and other risks of the institution calculated using methodologies set out in the CRR.

The Bank must at all times monitor and demonstrate compliance with the own funds requirements of the CRR. The Bank has put in place processes and controls to monitor and manage its own funds and no breaches were reported to the PRA during the year.

The following table sets out details of the Bank's own funds at 31 December 2016 and 2015:

	2016	2015
	£'000	£'000
Own Funds		
Total shareholders' equity	208,494	208,623
Regulatory deductions and adjustments:		
Gain on AFS equities	(1,973)	(1,658)
Intangible assets and Goodwill	(20,974)	(24,142)
Total Tier 1 (and CET1) capital	185,547	182,823
Tier 2 capital		
Subordinated debt	25,000	25,000
Total Tier 2 capital	25,000	25,000
Own Funds	210,547	207,823

Notes to the Financial Statements for the Year ended 31 December 2016
34. Country-by-Country reporting

Article 89 of the Capital Requirements Directive IV (Directive 2013/36/EU) requires institutions – credit institutions or investment firms, their branches, and subsidiaries – to disclose annually: their name, the nature of their activities and geographic location, number of employees, and their turnover, pre-tax profit or loss, taxes paid and public subsidies received, on a country-by-country basis for the year ended 2016. For ease of comparison, 2015 is disclosed below, and was previously disclosed on www.credit-suisse.com.

All amounts for CSUK and its subsidiaries are reported in GBP (the functional currency of the Bank).

Basis of preparation

- **Country:** The geographical location of CSUK and its subsidiaries considers the country of incorporation or residence as well as the relevant tax jurisdiction. All entities are in the United Kingdom.
- **Entity details:** the name of the entity, the entity type, and the nature of activity is detailed in the table below. CSUK is a bank that provides advice relating to advisory and discretionary investment services, banking services including secured lending facilities and financial planning advice. CSUK's subsidiaries are disclosed separately.
- **Average Number of Employees:** Defined as the number of employees on a full time equivalent basis, compensated directly by the entity.
- **Turnover:** Defined as net revenues, and is consistent with CSUK's financial statements. Net revenues include total income before impairment and operating expenses, but after net interest, and net commissions/fees income.
- **Pre Tax Profit/(Loss):** Definition of profit/(loss) before tax is consistent with that within CSUK's financial statements, which includes net revenues, less total operating expenses.
- **Corporation Taxes Paid:** Defined as the corporation tax paid for CSUK in 2016 and does not include taxes refunded back to the Bank on account of tax overpayments in prior years during 2016 or 2015.
- **Public Subsidies Received:** Interpreted as direct support by the government and there were no public subsidies received by the Bank in 2016 (2015: Nil).

Country by Country report - Year ended 31 December 2016

Geographical Location	Name of Entity	Parent, Subsidiary or Branch	Nature of Activity	Average Number of Employees	Turnover (GBP Millions)	Pre Tax Profit/(Loss) (GBP Millions)	Corporation Taxes Paid (GBP Millions)	Public Subsidies Received (GBP Millions)
United Kingdom	Credit Suisse (UK) Limited	Parent	Bank	299	91	1	Nil	Nil
United Kingdom	Buckmore Nominees Limited	Subsidiary	Nominee Company	Nil	Nil	Nil	Nil	Nil
United Kingdom	Credit Suisse London Nominees Limited	Subsidiary	Nominee Company	Nil	Nil	Nil	Nil	Nil
United Kingdom	Credit Suisse (UK) Limited	Consolidated	Bank	299	91	1	Nil	Nil

Notes to the Financial Statements for the Year ended 31 December 2016
Country by Country report - Year ended 31 December 2015

Geographical Location	Name of Entity	Parent, Subsidiary or Branch	Nature of Activity	Average Number of Employees	Turnover (GBP Millions)	Pre Tax Profit/(Loss) (GBP Millions)	Corporation Taxes Paid (GBP Millions)	Public Subsidies Received (GBP Millions)
United Kingdom	Credit Suisse (UK) Limited	Parent	Bank	289	98	15	Nil	Nil
United Kingdom	Buckmore Nominees Limited	Subsidiary	Nominee Company	Nil	Nil	Nil	Nil	Nil
United Kingdom	Credit Suisse London Nominees Limited	Subsidiary	Nominee Company	Nil	Nil	Nil	Nil	Nil
United Kingdom	Credit Suisse (UK) Limited	Consolidated	Bank	289	98	15	Nil	Nil

The Bank has incurred substantial taxes in the UK during 2016; including Bank Levy of £1.6m (2015: £1.9m), employer's social security of £4.6m (2015: £5.2m) and irrecoverable UK value added tax ('VAT') of £1.4m (2015: £1.0m). The Bank has suffered irrecoverable withholding tax of £Nil (2015: £0.2m) in Switzerland. However, as disclosed in Note 34 – Country-by-Country Reporting, CSUK has not paid corporation tax in the UK (2015: £Nil) as taxable profits were fully offset by group relief.

35. Contingent liabilities

The Bank is party to various legal proceedings as part of its normal course of business. The Directors of the Bank believe that the aggregate liabilities, if any, resulting from these proceedings will not significantly prejudice the financial position of the Bank and have been provided for where deemed necessary in accordance with accounting policy.

36. Subsequent events

In February 2017, the Bank reached a settlement with a client on a case that has been fully provisioned for during 2016. In accordance with normal commercial practice CSUK purchases insurance cover, including for litigation risk and associated legal expenses. CSUK cannot make a claim until an insured event has occurred. Therefore, whilst at 31 December 2016 CSUK did have a provision (see note 21 - Provisions) relating to legal disputes there was no insured event upon which to claim and in accordance with IAS 37 no contingent asset was recognised. Upon successful settlement, CSUK has subsequently made a claim which our insurers have approved but not yet settled.



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