

**CREDIT SUISSE (UK) LIMITED**  
Annual Report 2014

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**Board of Directors as at 14 April 2015**

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Michael A. Bussey (Independent Non-Executive Chairman)

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Philip Brewster (Independent Non-Executive)

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Gael de Boissard

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Philip Harris (Chief Executive Officer)

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Ian Hale

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Garrett Curran

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Walter Sperb

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**Company Secretary**

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Paul E. Hare

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**Strategic report for the year ended 31 December 2014**

The Directors present their Annual Report and the Financial Statements for the year ended 31 December 2014.

**Profile**

Credit Suisse (UK) Limited (the 'Bank' and 'CSUK') is a bank domiciled in the United Kingdom.

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.

Credit Suisse (UK) Limited is a wholly (partly indirectly) owned subsidiary of Credit Suisse AG and an indirect subsidiary of Credit Suisse Group AG ('CSG'), a company domiciled in Switzerland which 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](http://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 clients through two divisions, the Private Banking and Wealth Management ('PBWM') & Investment Banking, which co-operate closely to provide holistic financial solutions, based on innovative products and specially tailored advice. Founded in 1856, Credit Suisse group has a truly global reach today, with operations in over 50 countries and a team of more than 45,800 employees from approximately 150 different nations.

Credit Suisse (UK) Limited's business is managed as part of the PBWM division. Through its PBWM division, CS group offers a wide range of financial solutions to private, corporate and institutional clients. The PBWM division comprises the Wealth Management Clients, Corporate & Institutional Clients and Asset Management business. Under Wealth Management Client business it 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. Asset Management business offers wide range of investment products and solutions across asset classes and all investment styles, serving governments, institutions, corporations and individuals worldwide.

**Management and governance**

A number of management and governance changes have been effected. Thomas Wirth, Gael de Boissard, Ian Hale, Garrett Curran, Philip Harris and Walter Sperb were appointed as Directors of the CSUK Board. Daniel R. Wenger, Philip M. Cutts, Erich Pfister, Thomas Wirth and Andreas Rohr have resigned. The Board approved the formation of a Risk Committee, comprising of Non-Executive Directors and chaired by Philip Brewster, on 12 September 2014.

**Key performance indicators ('KPIs')**

The Bank uses profitability, return on assets, assets under management, net new assets and assets under custody as the primary KPIs 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 the Bank's objectives. The return on total assets was (0.3)% (2013: (0.8)%).

**Performance**

The Bank reported a net loss for the period ended 31 December 2014 of £7.2m (2013: net loss £16.8m).

Net operating income was £77.1m (2013: £49.7m). In 2014 net operating income increased primarily on account of increase in the Bank's lending portfolio and an increase in investment and portfolio management fees due to acquisition of Morgan Stanley's private wealth management business in the UK.

**Strategic report for the year ended 31 December 2014**

The Bank's operating expenses were £84.3m (2013: £66.3m). Operating expenses were higher primarily due to increase in provisions, and increased expenses attributable to the acquisition of the Morgan Stanley's private wealth management business.

As at 31 December 2014, the Bank had total assets of £2,470m (2013: £2,098m) which included an increase of £180m in loans to clients and increase in Goodwill and Intangible assets of £26.5m arising due to the acquisition during 2014. Total shareholders' equity as at 31 December 2014 was £196.6m (2013: £126.7m).

**Principal Risks and Uncertainties**

The Bank faces a variety of risks that are substantial and inherent in its businesses including operational risk, credit risk, market risk, liquidity risk, currency risk, settlement risk, country risk, legal and regulatory risk, conduct risk, and reputational risk. These are detailed in Note 32 – Financial Instruments Risk Position.

There have been significant changes in the way large financial service 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 financial services is structured affecting the Bank business model.

CSUK operates a 'Three Lines of Defence' structure in managing risks inherent in the business. The primary responsibility for risk management within the Bank lies with the 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. Business line managers are supported in their risk management by Business Risk Management ('BRM'). The Bank's independent risk function is headed by the Chief Risk Officer ('CRO'). The CRO is responsible for overseeing the Bank's risk profile across all risk types and for ensuring independence of the risk management. Furthermore Credit Risk Management ('CRM') provides specific expertise in credit risk.

CS has established a specific 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 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 mitigations and conduct risk management information.

The Bank's risk management process is designed to ensure that there are sufficient independent controls to measure, monitor and control risks in accordance with the Bank's control framework and in consideration of industry best practices.

**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.

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.

Changes made to the capital structure during 2014 are set out in Note 24 –Share Capital and Share Premium.

## Strategic report for the year ended 31 December 2014

### Corporate Governance

#### Internal Control

The Directors are ultimately responsible for the effectiveness of internal control within Credit Suisse (UK) Limited. Procedures have been designed for safeguarding assets; for maintaining proper accounting records; and for assuring the reliability of financial information used within the business, and for that provided to external users. 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 are designed to provide effective internal control within Credit Suisse (UK) Limited. Such procedures 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 14 April 2015, the date of approval of the Credit Suisse (UK) Limited Annual Report for 2014.

Key risks identified by the Directors 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 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, and other performance data.

#### Committees:

The Board delegates certain functions and responsibilities to the following Committees:

#### Audit Committee

The purpose of the Audit Committee is to:

- Act as the Audit Committee for the Board of Credit Suisse (UK) Limited;
- Review the Internal Audit Plan to ensure its adequacy, as it pertains to Credit Suisse (UK) Limited;
- Review the External Auditor's Plan to ensure its adequacy, as it pertains to Credit Suisse (UK) Limited;
- Review reports on systems of accounting, internal controls and risk management systems, and compliance with regulatory and legal requirements, and on litigation;
- Review accounting and valuation policy changes and issues and tax policies, risks and issues;
- Review reports on quality and accuracy of financial reporting to external bodies;
- Review other Internal Audit reports, regulatory examination reports and External Audit reports and management letters;
- Review the Annual Financial Statements on behalf of the Board and, if appropriate, recommend to the Board for approval;
- Report significant issues to the Board.

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

#### Risk Committee

The purpose of the Risk Committee is to:

- Advise the Management Board on the overall current and future risk appetite;
- Assist in the implementation of the risk strategy;
- Act as the central risk reporting forum to the Board, providing consolidate risk reporting and comment, recommendations;

## Strategic report for the year ended 31 December 2014

- Review and assess the integrity and adequacy of the risk management function of the Bank including processes and organizational structures;
- Review and assess the adequacy of the Bank's liquidity and funding;
- Review and assess the Bank's credit risk including any large exposures;
- Review and assess the adequacy of the Bank's capital and its allocation to the Bank's businesses;
- Review with the Bank's management and jointly with the Audit Committee, significant operational risk matters involving business processes and system infrastructure;
- Review and assess the adequacy of the risk measurement methodologies including the Risk Appetite framework;
- Review and assess various internal limits and make specific recommendations with respect to Risk Capital;
- Review together with the Bank's management and the Audit Committee, significant operational risk matters involving business processes and system infrastructure;
- Review other major risk concentration as deemed appropriate;
- Monitor the adequacy of the business continuity program;
- Assist in the establishment of sound remuneration policies and practices and, without prejudice to the tasks of the Group remuneration process, examine whether incentives provided by the remuneration system take into consideration risk, capital, liquidity and the likelihood and timing of earnings.

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

### Risk Management

The Bank's financial risk management objectives and policies and the exposure of the Bank to credit risk, liquidity risk, market risk, legal risk, operational risk and reputational risk are outlined in Note 32 - Financial instruments risk position.

### Selected European credit risk exposures

The Bank's credit exposures are calculated on a risk based view and include loans and undrawn commitments. Collateral values applied for calculation of net exposure are determined in accordance with credit risk management policies. The Bank does not enter into proprietary trades in its own capacity and thus does not have any direct exposure to sovereigns. Exposure to sovereigns is indirect in nature and limited to collateral under reverse repurchase agreements which are all transacted with a fellow CS group entity. The fair value of this collateral is monitored on a regular basis and any shortfall or excess in value is adjusted.

The Bank undertakes secured lending activity to private clients, including their personal investment companies and trusts. Credit Risk Management ('CRM') actively manages client exposure, taking into consideration collateral received. As at the year end the direct exposure to corporates and individuals in Portugal, Ireland, Italy, Greece, Spain, Russia and Ukraine was not substantial. There was no exposure to sovereign risk from Portugal, Ireland, Italy, Greece, Spain, Russia and Ukraine.

### Corporate employee policy

The Bank adopts the CS group's policies which are committed to providing equal opportunities for all employees, irrespective of factors such as ethnicity or nationality, gender, sexual orientation, religion, age, marital or family status, or disability.

Our internal experts work closely with our businesses across all regions to ensure that our diversity and inclusion strategy is firmly embedded in our corporate culture. They advise managers on the planning and implementation of necessary internal structures and measures to ensure we can offer an inclusive working environment that is free from discrimination and can take the specific needs of clients into account in our product and service offering. In all four of our regions, councils headed by our regional CEOs are responsible for ensuring that we systematically strive to achieve the targets we have defined and that we implement appropriate measures.

**Strategic report for the year ended 31 December 2014**

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, are dedicated to addressing the concerns of women, families, Lesbian, Gay, Bisexual and Transgender ('LGBT') individuals, the older and younger generations, and employees from various ethnic backgrounds.

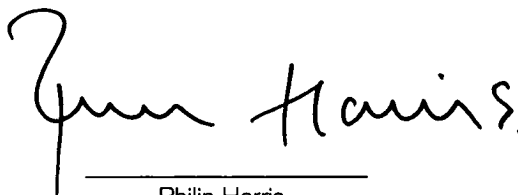
A Disciplinary Review Committee ('DRC') has been established for Credit Suisse entities in the UK to provide a framework to ensure that the Bank's articulated standards of professional conduct are adhered to and consistently enforced on a continuous basis.

The Committee is designed to supplement existing policies and procedures (which require line managers and or other internal parties to be involved in disciplinary decisions), by providing an independent review of those decisions. The Committee comprises senior regional representatives from the businesses and Shared Services.

The Role of the Committee is:

- To consider whether issues or incidents arising in the course of the Bank's business warrant the initiation of a disciplinary process;
- To review and provide input into the adequacy of proposed disciplinary action in cases of misconduct or failure to comply with applicable policies, standards, rules or requirements. Any decision will be that of the disciplinary hearing manager. Disciplinary issues relating to breaches of the Bank's equal opportunity and dignity at work policies will, owing to their sensitivity, be reviewed by the relevant CEO in conjunction with a subsection only of the full Committee; and
- To ensure that risk/control issues/concerns are properly reflected in the annual performance evaluation (competency of "Principled Conduct"), promotion, and compensation processes. Specifically, the Committee will:
  - i. Ensure that formal disciplinary action, and any inappropriate conduct falling short of disciplinary action or any negative feedback arising from structured risk and control assessments of personnel is appropriately reflected in annual performance evaluations;
  - ii. Review and determine whether any promotion candidate should be deferred by reason of any of the matters described above; and
  - iii. Define appropriate impact on discretionary variable incentive award for different levels of disciplinary action (e.g. oral/written warnings, etc. where applicable).

Signed on behalf of the Board of Directors on 14 April 2015 by:



Philip Harris  
Director

## **Directors' report for the year ended 31 December 2014**

### **International Financial Reporting Standards**

Credit Suisse (UK) Limited's 2014 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 14 April 2015.

### **Dividends**

No dividends were paid or are proposed for 2014 (2013: £ 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 2013 and up to the date of this report are as follows:

#### **Appointments:**

Thomas Wirth	30 June 2014
Gael de Boissard	12 September 2014
Ian Hale	08 December 2014
Garrett Curran	08 December 2014
Philip Harris	25 February 2015
Walter Sperb	14 April 2015

#### **Resignations:**

Daniel R. Wenger	25 April 2014
Philip M. Cutts	01 July 2014
Erich Pfister (Chairman)	05 September 2014
Thomas Wirth	31 March 2015
Andreas Rohr	01 April 2015

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.

### **Risk and Capital**

The way in which risks are managed is detailed in the Strategic Report, and the risks are detailed in Note 32 – Financial Instruments Risk Position. Changes made to the capital structure are set out in Note 24 – Share Capital and Share Premium.

### **Statement of Directors' Responsibilities**

The Directors are responsible for preparing the Annual Report 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 laws.

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 their profit or loss for that period. In preparing these Financial Statements, the Directors are required to:



**Directors' report for the year ended 31 December 2014**

- 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 IFRS 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.

The Directors are responsible for the maintenance and integrity of the corporate and financial information included on the Company's website. Legislation in the UK governing the preparation and dissemination of Financial Statements may differ from legislation in other jurisdictions.

**Disclosure of Information to Auditors**

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 he ought to have taken as a director to make him aware of any relevant audit information and to establish that the Bank's auditor is aware of that information.

**Auditors**

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 the UK budget announcement of 18 March 2015, the UK government announced its intention to increase the UK Bank Levy rate from 0.156% to 0.21% for short term liabilities and 0.78% to 0.105% for long term liabilities with effect from 1 April 2015. This rate increase has now been enacted but is not expected to have a material impact on the 2015 results of the Company.

In the 2014 Autumn Statement, the UK Chancellor of the Exchequer announced proposals to restrict the use of losses carried forward by UK banks to a maximum of 50% of profits in periods from April 2015 onwards. This UK tax law change has now been enacted but is not expected to have a material impact on the recoverability of the net deferred tax asset.

On 26 March 2015, £100m subordinated debt facility agreement with Credit Suisse PSL GmbH was terminated.

By order of the Board



Paul Hare  
Company Secretary

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

We have audited the Financial Statements of Credit Suisse (UK) Limited for the year ended 31 December 2014 set out on pages 11 to 84. The financial reporting framework that has been applied in their preparation is applicable by 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 auditors

As explained more fully in the Directors' Responsibilities Statement set out on pages 8 to 9, 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 (APB'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](http://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 2014 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 for which the Financial Statements are prepared is consistent with the Financial Statements; and information given in the Corporate Governance Statement set out on pages 5 to 6 with respect to internal controls and risk management systems in relation to financial reporting processes is consistent with the Financial Statements.

### 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.
- a Corporate Governance Statement has not been prepared by the Company.



Simon Ryder  
(Senior Statutory Auditor)

for and on behalf of KPMG LLP, Statutory Auditor  
Chartered Accountants  
15 Canada Square,  
London, E14 5GL  
14 April 2015

Statement of Income for the Year ended 31 December 2014

		2014	2013
	Note	£'000	£'000
Interest income	4	35,162	27,836
Interest expense	4	(5,612)	(5,845)
<b>Net interest income</b>		<b>29,550</b>	<b>21,991</b>
Commissions and fees income	5	50,364	38,162
Commissions and fees expense	5	(2,970)	(2,927)
<b>Net commissions and fees</b>		<b>47,394</b>	<b>35,235</b>
Other operating income/ (expense)	6	146	(7,498)
<b>Total non-interest income</b>		<b>47,540</b>	<b>27,737</b>
<b>Net operating income</b>		<b>77,090</b>	<b>49,728</b>
Compensation and benefits	7	(51,755)	(43,920)
Other expenses	8	(32,547)	(22,417)
<b>Total operating expenses</b>		<b>(84,302)</b>	<b>(66,337)</b>
<b>Loss before tax</b>		<b>(7,212)</b>	<b>(16,609)</b>
Income tax benefit/ (charge)	9	8	(194)
<b>Loss after tax</b>		<b>(7,204)</b>	<b>(16,803)</b>

Loss for both 2014 and 2013 is from Continuing Operations.

The accompanying notes on pages 16 to 84 form an integral part of these Financial Statements.

**Statement of Comprehensive Income for the Year ended 31 December 2014**

		<b>2014</b>	<b>2013</b>
	<b>Note</b>	<b>£'000</b>	<b>£'000</b>
<b>Loss after tax</b>		(7,204)	(16,803)
Available-for-sale financial assets - net change in fair value	12	134	348
<b>Total items that may be reclassified to income</b>		<b>134</b>	<b>348</b>
<b>Other comprehensive income, net of tax</b>		<b>134</b>	<b>348</b>
<b>Total Comprehensive loss attributable to shareholders</b>		<b>(7,070)</b>	<b>(16,455)</b>

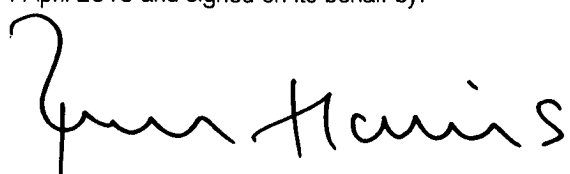
The accompanying notes on pages 16 to 84 form an integral part of these Financial Statements.

**Statement of Financial Position as at 31 December 2014**

		<b>2014</b>	<b>2013</b>
	<b>Note</b>	<b>£'000</b>	<b>£'000</b>
<b>Assets</b>			
Cash and due from banks		26,306	42,898
Interest-bearing deposits with banks		55,270	82,272
Securities purchased under resale agreements	10	974,128	782,578
Trading financial assets at fair value through profit or loss	11	21,183	9,138
<i>Of which positive market values from derivative instruments</i>	<i>11</i>	<i>21,183</i>	<i>8,790</i>
Financial assets available for sale	12	3,265	3,131
Other loans and receivables	13	1,340,992	1,160,872
Deferred tax assets	15	1,400	1,392
Other assets	16	19,685	12,657
Property and equipment	17	-	44
Intangible assets	18	13,558	1,441
Goodwill	19	13,752	1,539
<b>Total assets</b>		<b>2,469,539</b>	<b>2,097,962</b>
<b>Liabilities</b>			
Deposits	20	2,182,096	1,898,842
Trading financial liabilities at fair value through profit or loss	11	20,638	8,340
<i>Of which negative market values from derivative instruments</i>	<i>11</i>	<i>20,638</i>	<i>8,340</i>
Other liabilities	21	30,399	35,583
Provisions	22	14,777	3,498
Long term debt	23	25,000	25,000
<b>Total liabilities</b>		<b>2,272,910</b>	<b>1,971,263</b>
<b>Shareholders' equity</b>			
Share capital	24	245,230	168,230
Share premium	24	11,200	11,200
Accumulated other comprehensive income	12	3,193	3,059
Accumulated losses		(90,494)	(83,290)
Capital contribution reserve		27,500	27,500
<b>Total shareholders' equity</b>		<b>196,629</b>	<b>126,699</b>
<b>Total liabilities and shareholders' equity</b>		<b>2,469,539</b>	<b>2,097,962</b>

The accompanying notes on pages 16 to 84 form an integral part of these Financial Statements.

Approved by the Board of Directors on 14 April 2015 and signed on its behalf by:



Philip Harris  
Director

Statement of Changes in Equity for the Year ended 31 December 2014

	Share Capital	Share Premium	Capital Contribution Reserve	Accumulated Losses	AOCI <sup>1</sup>	Total Shareholders' Equity
	£'000	£'000	£'000	£'000	£'000	£'000
<b>Balance as at 1 January 2014</b>	<b>168,230</b>	<b>11,200</b>	<b>27,500</b>	<b>(83,290)</b>	<b>3,059</b>	<b>126,699</b>
Issuance of share capital	77,000	-	-	-	-	77,000
Net gain on non-marketable securities taken to equity	-	-	-	-	134	134
<b>Net Loss recognised directly in equity</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>134</b>	<b>134</b>
Loss for the year	-	-	-	(7,204)	-	(7,204)
<b>Balance as at 31 December 2014</b>	<b>245,230</b>	<b>11,200</b>	<b>27,500</b>	<b>(90,494)</b>	<b>3,193</b>	<b>196,629</b>
	Share Capital	Share Premium	Capital Contribution Reserve	Accumulated Losses	AOCI	Total Shareholders' Equity
	£'000	£'000	£'000	£'000	£'000	£'000
<b>Balance as at 1 January 2013</b>	<b>126,750</b>	<b>-</b>	<b>27,500</b>	<b>(66,487)</b>	<b>2,711</b>	<b>90,474</b>
Issuance of share capital	41,480	11,200	-	-	-	52,680
Net gain on non-marketable securities taken to equity	-	-	-	-	348	348
<b>Net Income recognised directly in equity</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>348</b>	<b>348</b>
Loss for the year	-	-	-	(16,803)	-	(16,803)
<b>Balance as at 31 December 2013</b>	<b>168,230</b>	<b>11,200</b>	<b>27,500</b>	<b>(83,290)</b>	<b>3,059</b>	<b>126,699</b>

<sup>1</sup> AOCI refers to Accumulated Other Comprehensive Income.

Statement of Cash Flows for the Year Ended 31 December 2014

		2014	2013
	Note	£'000	£'000
<b>Cash flows from operating activities</b>			
Loss before tax for the year		(7,212)	(16,609)
<b>Adjustments to reconcile net (loss) to net cash generated from/ (used in) operating activities of continuing operations</b>			
Non-cash items included in (loss) before tax and other adjustments:			
Amortisation of intangible assets	18	2,258	24
Loss on early repayment of long term debt	23	-	2,680
Depreciation of property and equipment	17	44	50
Loss on sale of property and equipment	17	-	20
<b>Cash used in operating activities before changes in operating assets and liabilities</b>		<b>(4,910)</b>	<b>(13,835)</b>
Net (increase)/decrease in operating assets:			
Securities purchased under resale agreements	10	(191,550)	(31,501)
Trading financial assets at fair value through profit or loss	11	(12,045)	470
Other loans and receivables	13	(180,120)	(215,545)
Interest bearing deposits with banks		27,002	67,691
Other assets	16	(7,028)	(2,489)
<b>Total net increase in operating assets</b>		<b>(363,741)</b>	<b>(181,374)</b>
Net increase/(decrease) in operating liabilities:			
Deposits	20	283,254	170,122
Trading financial liabilities at fair value through profit or loss	11	12,298	(846)
Other liabilities and provisions	21,22	6,719	11,013
<b>Total net increase in operating liabilities</b>		<b>302,271</b>	<b>180,289</b>
<b>Net cash flow used in operating activities</b>		<b>(66,380)</b>	<b>(14,920)</b>
<b>Cash flows from Investing activities</b>			
Capital expenditures for Intangible assets and Goodwill acquired during the year	18,19	(26,588)	(3,004)
<b>Net cash flow used in investing activities</b>		<b>(26,588)</b>	<b>(3,004)</b>
<b>Cash flows from Financing activities</b>			
Issuance of share capital	24	77,000	41,480
Share premium	24	-	11,200
Repayment of long term debt	23	-	(52,680)
Interest paid on long term debt		(624)	(1,462)
<b>Net cash flow generated from/ (used in) financing activities</b>		<b>76,376</b>	<b>(1,462)</b>
<b>Net decrease in cash and cash equivalents</b>		<b>(16,592)</b>	<b>(19,386)</b>
Cash and cash equivalents at the beginning of the year		42,898	62,284
<b>Cash and cash equivalents at the end of the year</b>		<b>26,306</b>	<b>42,898</b>

The accompanying notes on pages 16 to 84 form an integral part of these Financial Statements.

**Notes to the Financial Statements for the Year ended 31 December 2014****1. General**

Credit Suisse (UK) Limited 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 14 April 2015.

**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 the derivative financial instruments and available for sale securities that are stated at their fair value.

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.

The Bank has unrestricted and direct access to funding sources by CSG. After making enquiries of the CSG, the Directors of the Bank have received confirmation that CSG will ensure that the Bank maintains a sound financial position and is able 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:

- IFRS 10 Consolidated Financial Statements: In May 2011, the International Accounting Standards Board ('IASB') issued IFRS 10, "Consolidated Financial Statements" (IFRS 10). The objective of IFRS 10 is to establish principles for the presentation and preparation of consolidated Financial Statements when an entity controls one or more other entities. IFRS 10 builds on existing principles by identifying the concept of control as the determining factor in whether an entity should be included within the consolidated Financial Statements of the parent company. The standard provides additional guidance to assist in the determination of control where this may be difficult to assess. The adoption of IFRS 10 on 1 January 2014 did not have a material impact on the Bank's financial position, results of operation or cash flows.
- IFRS 11 Joint Arrangements: In May 2011, the IASB issued IFRS 11 "Joint Arrangements" (IFRS 11). IFRS 11 specifies that a party to a joint arrangement determines the type of joint arrangement in which it is involved by assessing its rights and obligations. The adoption of IFRS 11 on 1 January 2014 did not have an impact on the Bank's financial position, results of operation or cash flows.
- IFRS 12 Disclosure of Interests in Other Entities: In May 2011, the IASB issued IFRS 12 "Disclosures of Interests in Other Entities" (IFRS 12). IFRS 12 requires entities to disclose information that enables users of the



## Notes to the Financial Statements for the Year ended 31 December 2014

financial statement to evaluate the nature of and any associated risks of its interests in other entities and the effects of those interests on its financial position, financial performance and cash flows. IFRS 12 requires certain disclosures for subsidiaries, joint arrangements and associates and introduces new requirements for unconsolidated structured entities. As IFRS 12 requires disclosures only, the adoption thereof on 1 January 2014 did not have an impact on the Bank's financial position, results of operation or cash flows.

- **IAS 27 Separate Financial Statements:** In May 2011, the IASB issued an amended version of IAS 27 "Separate Financial Statements" (IAS 27). IAS 27 outlines the accounting and disclosure requirements for separate Financial Statements. The adoption of IAS 27 on 1 January 2014 did not have an impact on the Bank's financial positions, results of operation or cash flows.
- **IAS 28 Investments in Associates and Joint Ventures:** In May 2011, the IASB issued IAS 28 "Investments in Associates". The objective of IAS 28 is to prescribe the accounting for investments in associates and to set out the requirements for the application of the equity method when accounting for investments in associates and joint ventures. The revised IAS 28 standard is effective for annual periods beginning on or after 1 January 2013, however, the EU requires adoption for annual periods beginning on or after 1 January 2014. The adoption of IAS 28 on 1 January 2014 did not have a material impact on the Bank's financial positions, results of operation or cash flows.
- **IAS 32 Offsetting Financial Assets and Financial Liabilities:** - In December 2011, the IASB issued amendments to IAS 32 "Offsetting Financial Assets and Financial Liabilities" (IAS 32). The amendments address inconsistencies in current practice when applying the offsetting criteria in IAS 32 'Financial Instruments – Presentation'. The amended IAS 32 restricts offsetting on the Statement of Financial Position to only those arrangements in which a right of set-off exists that is unconditional and legally enforceable, in the normal course of business and in the event of the default and bankruptcy or insolvency of the Bank and its relevant counterparties and for which the Bank intends to either settle on a net basis, or to realize the asset and settle the liability simultaneously. The amendments also provide incremental guidance for determining when gross settlement systems result in the functional equivalent of net settlement. The adoption of IAS 32 on 1 January 2014 did not have an impact on the Bank's financial positions, results of operation or cash flows.
- **Transition guidance for IFRS 10, IFRS 11 and IFRS 12:** In June 2012, the IASB issued 'Consolidated Financial Statements, Joint Arrangements and Disclosure of Interest in Other Entities; Transition Guidance' (Amendments to IFRS 10, IFRS 11 and IFRS 12). The amendments are intended to provide additional transition relief in IFRS 10, IFRS 11 and IFRS 12, by "limiting the requirement to provide adjusted comparative information to only the preceding comparative period". Also, amendments were made to IFRS 11 and IFRS 12 to eliminate the requirement to provide comparative information for periods prior to the immediately preceding period. The Bank has adopted the requirements of this amendment with the provisions of IFRS 10, IFRS 11 and IFRS 12 as at 1 January 2014. As the transition guidance provides clarifications to IFRS 10, 11, 12, the impact is included in the adoption of the standards respectively.
- **Investment Entities (Amendments to IFRS 10, IFRS 12 and IAS 27):** In October 2012, the IASB issued "Investment Entities Amendments to IFRS 10, IFRS 12 and IAS 27" (Investment Entities Amendment). Under IFRS 10, reporting entities were required to consolidate all investees they control, however the Investment Entities Amendment provides an exception and requires investment entities to measure particular subsidiaries at fair value through profit or loss, rather than consolidate them. The Investment Entities Amendment sets out disclosure requirements for investment entities. The adoption of the Investment Entities Amendment on 1 January 2014, did not have an impact on the Bank's financial position, results of operation or cash flows.
- **Recoverable Amount Disclosures for Non-Financial Assets (Amendments to IAS 36):** In May 2013, the IASB issued Recoverable Amount Disclosures for Non-Financial Assets (Amendments to IAS 36). The Amendments to IAS 36 restrict the requirement to disclose the recoverable amount of an asset to periods in which an impairment loss has been recognised or reversed. The amendments also expand and clarify the disclosure requirements applicable when an assets recoverable amount has been determined on the basis of fair value less costs of disposal. The Amendments to IAS 36 impact disclosures only, therefore the adoption on 1 January 2014 did not have an impact on the Bank's financial position, results of operation or cash flows.

## Notes to the Financial Statements for the Year ended 31 December 2014

- **IFRIC 21 Levies:** In May 2013, the IASB issued "Levies" (IFRIC 21). The Interpretation clarifies that the obligating event that gives rise to a liability to pay a levy is the activity described in the relevant legislation that triggers the payment of the levy. IFRIC 21 is effective for annual periods beginning on or after 1 January 2014. The adoption of IFRIC 21 on 1 January 2014 did not have an 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.

- **Annual Improvements to IFRSs 2011-2013 Cycle:** In December 2013, the IASB issued "Annual Improvements to IFRSs Cycle 2011-2013" (Improvements to IFRSs 2011-2013), which contain numerous amendments to IFRS that the IASB considers non-urgent but necessary. The Improvements to IFRSs are effective for annual periods beginning on or after 1 July 2014. The Bank is currently evaluating the impact of adopting these Improvements to IFRSs.
- **Annual Improvements to IFRSs 2010-2012 Cycle:** In December 2013, the IASB issued "Annual Improvements to IFRSs Cycle 2010-2012" (Improvements to IFRSs 2010-2012), which are effective for annual periods beginning on or after 1 July 2014. The Bank is currently evaluating the impact of adopting these Improvements to IFRSs.

### 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 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. IFRS 9 is effective for annual periods beginning on or after 1 January 2018. The Bank is currently evaluating the impact of adopting IFRS 9.
- **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. IFRS 15 is effective for annual reporting periods beginning on or after 1 January 2017. The Bank is currently evaluating the impact of adopting IFRS 15.
- **Amendments to IAS 27: Equity Method in Separate Financial Statements:** In August 2014 the IASB issued Equity Method in Separate Financial Statements. 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 Amendments to IAS 27 are effective for annual periods beginning on or after 1 January 2016. The Bank is currently evaluating the impact of adopting the Amendments to IAS 27.
- **Annual Improvements to IFRSs 2012-2014 Cycle:** In September 2014, the IASB issued 'Annual Improvements to IFRSs 2012-2014 cycle' (Improvements to IFRSs 2012-2014). The Improvements to IFRSs 2012-2014 are effective for annual periods beginning on or after 1 January 2016. The Bank is currently evaluating the impact of adopting these Improvements to IFRSs.

## Notes to the Financial Statements for the Year ended 31 December 2014

- Amendments to IFRS 10 and IAS 28: Sale or Contribution of Assets between an Investor and its Associate or Joint Venture: In September 2014, the IASB issues Sale or Contribution between an Investor and its Associate or Joint Venture (Amendments to IFRS 10 and IAS 28). The Amendments clarify that in a transaction involving an associate or joint venture the extent of gain or loss recognition depends on whether the assets sold or contributed constitute a business. The Amendments are effective for annual periods beginning on or after 1 January 2016. The Amendments to IFRS 10 and IAS 28 will not have a material impact on the Bank's financial position, results of operation or cash flows.
- 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 Bank is currently evaluating the impact of adopting the Amendments to IFRS 10, IFRS 12 and IAS 28.
- 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. The Amendments to IAS 1 are effective for annual periods beginning on or after 1 January 2016. As the Amendments to IAS 1 impact disclosures only, there will be no impact to the Bank's financial position, results of operation or cash flows.

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 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.

## Notes to the Financial Statements for the Year ended 31 December 2014

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.

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 Credit Suisse Group AG, 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.

## Notes to the Financial Statements for the Year ended 31 December 2014

### 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 maximizes the use of relevant observable inputs and minimizes 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.

#### 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 30 – 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 statements 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 statements 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 amortization) 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.

**Notes to the Financial Statements for the Year ended 31 December 2014**
**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 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 does not retain or transfer substantially all of the 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 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.

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 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) Other loans and receivables**

Other 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 other 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 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.

## Notes to the Financial Statements for the Year ended 31 December 2014

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 to 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 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. An allowance for impairment is reversed only if the amount of the impairment loss decreases and the decrease can be objectively related to an event occurring after the impairment was recognised.

### Write-off of loans

When it is considered certain that there is no realistic prospect of recovery 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.

### 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.

### I) 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 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 to offset transactions falling under Master Netting Agreements.

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

**Notes to the Financial Statements for the Year ended 31 December 2014****m) Income taxes**

Income tax recognised in the Statement of Income for the year comprises current and deferred tax. Income tax is recognised in the Statement of Income except to the extent that it relates to items recognised directly in equity, in which case the income tax is recognised in equity. For items initially recognised in equity and subsequently recognised in 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.

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.

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 on 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 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 on the profit and loss for the periods presented is included in Note 9 – Income Tax.

**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 of three years using the straight line method upon completion, or utilisation for internally developed software and over an estimated useful life of five years using the straight line method for the customer list. 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



## Notes to the Financial Statements for the Year ended 31 December 2014

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.

### p) Property and equipment

Property and equipment are stated at historical cost less accumulated depreciation and accumulated impairment losses. Historical cost includes expenditure that is directly attributable to the acquisition of the items.

Subsequent costs are included in the asset's carrying amount or are recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Bank and the cost of the item can be reliably measured. All other repairs and maintenance are charged to the Statement of Income during the period in which they are incurred. Depreciation on property and equipment is calculated using the straight-line method to allocate their cost to their residual values over their maximum useful lives, as follows:

Computer equipment	2 - 7 years
Furniture & fittings	5 years
Leasehold Improvements	10 years

The carrying amounts of property and equipment are reviewed at each reporting date to determine whether there is any indication of impairment. An impairment charge is recorded in Statement of Income to the extent the recoverable amount, which is the higher of fair value less costs to sell and value in use, is less than its carrying amount. Value in use is the present value of the future cash flows expected to be derived from the asset. After the recognition of impairment, the depreciation charge is adjusted in future periods to reflect the asset's revised carrying amount. The carrying amount of an asset for which an impairment loss has been recognised in prior years shall be increased to its recoverable amount only in a change of estimate in the asset's recoverable amount.

Gains and losses on disposals are determined by comparing proceeds with the carrying amount. These are included in the Statement of Income.

### q) 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 of income as incurred.

## **Notes to the Financial Statements for the Year ended 31 December 2014**

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, CSSEL, which is external to the Bank but is a related party due to both entities being owned by CSG.

### **r) 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 consist 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.

### **s) 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.

### **t) 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.

### **u) 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' on the Statement of Income.

The Bank reports an onerous lease provision, which is made for the future rental and related costs of leasehold property where it is vacant, surplus to the Bank's requirements or where the leasehold property has been sublet at a loss.

### **v) Interest income and expense**

Interest income and expense includes interest income and expense on the Bank's short-term and long-term borrowings, reverse repurchase and 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

## Notes to the Financial Statements for the Year ended 31 December 2014

fair value 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.

### w) 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 revenue is recognised from a diverse range of services provided to its customers. Fee income 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.

### x) Operating leases

The leases entered into by the Bank are exclusively operating leases. The total payments made under operating leases are charged to the Statement of Income on a straight-line basis over the period of the lease. When an operating lease is terminated before the lease period has expired, any payment required to be made to the lessor is recognised as an expense in the period in which termination takes place. For lease incentives provided by the lessor, the Bank, as lessee recognises the aggregate benefit as a reduction of rental expense over the lease term on a straight-line basis.

If the Bank is the lessor in an operating lease it continues to present the asset subject to the lease in its Financial Statements and recognises lease income on a straight line basis over the period of the lease.

### Sub leases

The sub leases entered into by the Bank are exclusively operating leases. Sub-lease payments received are recognised through the Statement of Income.

### y) 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 2014

### 3. Critical accounting estimates and judgements in applying accounting policies

In order to prepare the Financial Statements in accordance with 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 pronouncements, refer to Note 2 – Significant accounting policies.

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) Other loans and receivables
- (m) Income Tax
- (n) Intangible assets
- (o) Goodwill
- (q) Retirement Benefit costs
- (r) Share-based payments
- (t) Contingent liabilities
- (u) 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

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 case of trading assets & liabilities and the Statement of Comprehensive Income in 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 assumption and 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 30 - Financial instruments.

As of the end of 2014, 0.99% and 0.91% of the Bank's total assets and total liabilities respectively, were measured at fair value (2013: 0.58% and 0.42%, respectively). Level 3 assets were £3.3m as of the end of 2014 (2013: £3.4m). As of the end of 2014, these level 3 assets comprised 0.13% of total assets (2013: 0.16%) and 13.35% of the total assets measured at fair value (2013: 28.35%).

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 30 – 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

## Notes to the Financial Statements for the Year ended 31 December 2014

(c) a reliable estimate can be made of the amount of the obligation.

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 has 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

**Notes to the Financial Statements for the Year ended 31 December 2014**

considered adequate to absorb credit losses existing at the date of Statement of Financial Position. 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. 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. 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 quarterly 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.

**Income taxes****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.

**Deferred tax valuation**

Deferred tax assets ('DTA') and liabilities 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 DTA on temporary differences is dependent upon the generation of taxable income in future accounting periods after those temporary differences become deductible. The realisation of DTA 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 recent losses of the bank (primarily arising from the financial crisis that started in late 2008). The future taxable income can never be predicted with certainty, but management also evaluated the factors contributing to the losses and considered 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.

**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

## Notes to the Financial Statements for the Year ended 31 December 2014

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 Credit Suisse Securities Europe Limited ('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:

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.

**Notes to the Financial Statements for the Year ended 31 December 2014**
**4. Net interest income**

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

	<b>2014</b>	<b>2013</b>
	<b>£'000</b>	<b>£'000</b>
Interest income on loans	37,570	29,510
Interest expense on sub-participated loans	(3,420)	(2,948)
<b>Interest income on loans (Net of sub-participation)</b>	<b>34,150</b>	<b>26,562</b>
Interest income on Securities purchased under resale agreement	519	648
Interest income on cash and cash equivalents	493	626
<b>Total interest income</b>	<b>35,162</b>	<b>27,836</b>
Interest expense on deposits	(4,702)	(4,170)
Interest expense on long term debt	(910)	(1,675)
<b>Total interest expense</b>	<b>(5,612)</b>	<b>(5,845)</b>
<b>Net interest income</b>	<b>29,550</b>	<b>21,991</b>

**5. Net commission and fee income**

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

	<b>2014</b>	<b>2013</b>
	<b>£'000</b>	<b>£'000</b>
Investment and portfolio management fees	19,238	15,546
Commissions for other securities business	22,329	14,693
Fees for other customer services	8,797	7,923
<b>Commission and fee income</b>	<b>50,364</b>	<b>38,162</b>
Commissions for other securities business	(2,970)	(2,927)
<b>Commission and fee expense</b>	<b>(2,970)</b>	<b>(2,927)</b>
<b>Net commission and fees</b>	<b>47,394</b>	<b>35,235</b>

**6. Other operating income/ (expense)**

The following table sets forth the details of other operating income/ (expense):

	<b>2014</b>	<b>2013</b>
	<b>£'000</b>	<b>£'000</b>
Net foreign exchange gain	323	370
Income from investments	68	110
Operational risk losses	(245)	(7,978)
<b>Other operating income/ (expense)</b>	<b>146</b>	<b>(7,498)</b>

In 2014, the Bank incurred a loss of £0.2m on account of losses on debt securities acquired in 2013. In 2013, the Bank incurred a £7.7m fair value loss as a result of the acquisition of bonds that, at the balance sheet date, were impaired, and consequently a provision was made against these positions.



**Notes to the Financial Statements for the Year ended 31 December 2014**
**7. Compensation and benefits**

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

	<b>2014</b>	<b>2013</b>
	<b>£'000</b>	<b>£'000</b>
Salaries and bonuses	(40,943)	(34,539)
Social security	(5,773)	(4,708)
Pension cost	(4,364)	(3,934)
Other	(675)	(739)
<b>Compensation and benefits</b>	<b>(51,755)</b>	<b>(43,920)</b>

**8. Other expenses**

The following table sets forth the details of other expenses:

	<b>2014</b>	<b>2013</b>
	<b>£'000</b>	<b>£'000</b>
Provisions and losses	(13,752)	(1,440)
Professional services	(7,185)	(8,988)
Occupancy expenses	(4,675)	(4,876)
Depreciation and amortisation	(2,302)	(74)
Travel and entertainment	(1,559)	(1,515)
Market information	(1,280)	(566)
UK Bank Levy	(1,209)	(1,132)
General administration expenses	(1,008)	(982)
Non income taxes	(613)	(1,366)
Dues and fees	(178)	(505)
Audit fees	(49)	(49)
IT and machinery	(31)	(5)
Debt conversion loss (refer Note 24 - Share capital and share premium)	-	(2,680)
Expenses receivable from other Credit Suisse group companies	1,294	1,761
<b>Other expenses</b>	<b>(32,547)</b>	<b>(22,417)</b>

**Auditors' remuneration**

Auditors' remuneration in relation to the statutory audit amounted to £49k (2013: £49k).

**9. Income Tax**
**Current tax**

There is no current tax for the current and prior period.

**Deferred tax**

	<b>2014</b>	<b>2013</b>
	<b>£'000</b>	<b>£'000</b>
Origination and reversal of temporary differences	(8)	(10)
Adjustments in respect of previous periods	-	(5)
Effect of changes in tax rate or the imposition of new taxes	-	209
<b>Total deferred tax</b>	<b>(8)</b>	<b>194</b>
<b>Income tax (benefit)/ charge</b>	<b>(8)</b>	<b>194</b>

## Notes to the Financial Statements for the Year ended 31 December 2014

The income tax charge/ (benefit) for the year can be reconciled to the profit/ (loss) per the Statement of Income as follows:

	2014 £'000	2013 £'000
<b>(Loss) before tax</b>	(7,212)	(16,609)
(Loss) before tax multiplied by the UK statutory rate of corporation tax at the rate of 21.49% (2013: 23.25%)	(1,550)	(3,861)
Other permanent differences	331	1,376
Adjustments to deferred tax in respect of previous periods	-	(5)
Non recognition of deferred tax asset	1,211	2,475
Effect on deferred tax resulting from changes to tax rates	-	209
<b>Income tax (benefit) / charge</b>	<b>(8)</b>	<b>194</b>

### 10. Securities purchased under resale agreements

The following table summarises the securities borrowed or purchased under agreements to resell, at their respective carrying values:

	2014 £'000	2013 £'000
Securities purchased under resale agreements	974,128	782,578
<b>Total</b>	<b>974,128</b>	<b>782,578</b>

The agreements above, with CSSEL represent collateralised resale agreements used to earn net interest income. 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.

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

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

	2014 £'000	2013 £'000
FX derivative instruments	21,183	8,790
Debt securities	-	348
<b>Trading assets</b>	<b>21,183</b>	<b>9,138</b>
FX derivative instruments	20,638	8,340
<b>Trading liabilities</b>	<b>20,638</b>	<b>8,340</b>

### 12. Financial assets available for sale

	2014 £'000	2013 £'000
Cost	72	72
Gross unrealised gain	3,193	3,059
<b>Total financial assets available for sale</b>	<b>3,265</b>	<b>3,131</b>

## Notes to the Financial Statements for the Year ended 31 December 2014

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. Other loans and receivables

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

	2014 £'000	2013 £'000
Commercial	46,279	46,236
Consumer	577,934	461,838
<b>United Kingdom</b>	<b>624,213</b>	<b>508,074</b>
Commercial	388,355	402,416
Consumer	336,699	256,499
<b>Foreign</b>	<b>725,054</b>	<b>658,915</b>
Allowances for impairment losses	(2,006)	(1,550)
Deferred fees and costs	(6,269)	(4,567)
<b>Total loans and receivables</b>	<b>1,340,992</b>	<b>1,160,872</b>

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

	2014 £'000	2013 £'000
Due within one month	280,847	273,210
One month to three months	67,041	54,278
Three months to one year	101,399	44,480
One to five years	888,733	784,946
Greater than 5 years	11,247	10,075
Allowances for impairment losses	(2,006)	(1,550)
Deferred fees and costs	(6,269)	(4,567)
<b>Total loans and receivables</b>	<b>1,340,992</b>	<b>1,160,872</b>

Within "Other loans and receivables", nil (2013: £952k) loans were subject to forbearance arrangements as at 31 December 2014 on which no allowances for impairment losses were needed as remediation measures were successful.

The following table analyses the loans by collateral received:

	2014 £'000	2013 £'000
Securities	274,540	245,175
Real Estate	1,020,279	844,078
Other	54,448	77,736
Allowances for impairment losses	(2,006)	(1,550)
Deferred fees and costs	(6,269)	(4,567)
<b>Total loans and receivables</b>	<b>1,340,992</b>	<b>1,160,872</b>

### 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 Credit Suisse Group AG, incorporated in Switzerland, which prepares consolidated Financial Statements.

**Notes to the Financial Statements for the Year ended 31 December 2014**
**Buckmore Nominees Limited**

The wholly owned company is incorporated and operates in the United Kingdom and is registered in England and Wales. For the year ended 31 December 2014 the net worth of the entity is £2 (2013: £2).

**Credit Suisse London Nominees Limited**

The wholly owned company is incorporated and operates in the United Kingdom and is registered in England and Wales. For the year ended 31 December 2014 the net worth of the entity is £100 (2013: £100).

**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 35 – 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.

**15. Deferred tax assets**

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 Bank had estimated tax losses of £27.8m (2013: £21.3m) and estimated temporary differences of £15.9m (2013: £13.9m) as at 31 December 2014. The deferred tax asset not recognised on the carried forward tax losses is £5.6m (2013: £4.3m) and on temporary differences is £1.8m (2013: £1.3m). The benefit of these losses and temporary differences has not been recognised in these Financial Statements due to the uncertainty of their recoverability. The losses carried forward have no expiry date.

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

	<b>2014</b>	<b>2013</b>
	<b>£'000</b>	<b>£'000</b>
At beginning of the year	1,392	1,586
Benefit/ (Charge) to income for the year	8	10
Prior year adjustments	-	5
Effect of change in tax rate	-	(209)
<b>At end of the year</b>	<b>1,400</b>	<b>1,392</b>

Deferred tax assets are attributable to the following items:

	<b>2014</b>	<b>2013</b>
	<b>£'000</b>	<b>£'000</b>
Decelerated tax depreciation	1,400	1,392
<b>At end of the year</b>	<b>1,400</b>	<b>1,392</b>

The deferred tax charge in the Statement of Income comprises the following temporary difference:

	<b>2014</b>	<b>2013</b>
	<b>£'000</b>	<b>£'000</b>
Decelerated tax depreciation	8	(194)
<b>Total deferred tax charge in the income statement</b>	<b>8</b>	<b>(194)</b>

**Notes to the Financial Statements for the Year ended 31 December 2014**

Deferred taxes are calculated on all temporary differences under the liability method using an effective tax rate of 20% (2013: 20%).

The Finance Act 2012, which passed into law on 17 July 2012, reduced UK corporation tax rate from 24% to 23% with effect from 1 April 2013.

The Finance Act 2013, which passed into law on 17 July 2013, included further rate reductions in 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 reduction in the UK corporation tax rate to 20% resulted in a reduction of the Bank's net deferred tax asset as at 31 December 2013 of £209k.

**16. Other assets**

	<b>2014</b>	<b>2013</b>
	<b>£'000</b>	<b>£'000</b>
Interest and fees receivable	9,636	6,774
Amounts owed by Credit Suisse group undertakings	9,362	4,454
Other	687	1,429
<b>Total other assets</b>	<b>19,685</b>	<b>12,657</b>

**17. Property and equipment**

<b>31 December 2014</b>	<b>Computer equipment</b>	<b>Furniture &amp; fixtures</b>	<b>Leasehold improvements</b>	<b>Total property and equipment</b>
<b>Cost</b>	<b>£'000</b>	<b>£'000</b>	<b>£'000</b>	<b>£'000</b>
As at 1 January	140	114	280	534
Additions	-	-	-	-
Disposals	-	-	-	-
As at 31 December	140	114	280	534
<b>Accumulated depreciation</b>				
As at 1 January	(140)	(114)	(236)	(490)
Charge for the year	-	-	(44)	(44)
Disposals	-	-	-	-
As at 31 December	(140)	(114)	(280)	(534)
<b>Net book value as at 31 December</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>

<b>31 December 2013</b>	<b>Computer equipment</b>	<b>Furniture &amp; fixtures</b>	<b>Leasehold improvements</b>	<b>Total property and equipment</b>
<b>Cost</b>	<b>£'000</b>	<b>£'000</b>	<b>£'000</b>	<b>£'000</b>
As at 1 January	140	114	312	566
Additions	-	-	-	-
Disposals	-	-	(32)	(32)
As at 31 December	140	114	280	534
<b>Accumulated depreciation</b>				
As at 1 January	(140)	(107)	(205)	(452)
Charge for the year	-	(7)	(43)	(50)
Disposals	-	-	12	12
As at 31 December	(140)	(114)	(236)	(490)
<b>Net book value as at 31 December</b>	<b>-</b>	<b>-</b>	<b>44</b>	<b>44</b>

**Notes to the Financial Statements for the Year ended 31 December 2014**
**18. Intangible assets**

<b>31 December 2014</b>	<b>Customer list</b>	<b>Internally developed software</b>	<b>Total Intangible assets</b>
<b>Cost</b>	<b>£'000</b>	<b>£'000</b>	<b>£'000</b>
As at 1 January	1,465	5,156	6,621
Change in valuation	143	-	143
Revised opening balance as at 1 January	1,608	5,156	6,764
Additions	14,232	-	14,232
Disposals	-	-	-
As at 31 December	15,840	5,156	20,996
<b>Accumulated amortisation</b>			
As at 1 January	(24)	(5,156)	(5,180)
Charge for the year	(2,258)	-	(2,258)
As at 31 December	(2,282)	(5,156)	(7,438)
<b>Net book value as at 31 December</b>	<b>13,558</b>	<b>-</b>	<b>13,558</b>

As part of the acquisition of private wealth management business of Morgan Stanley in UK, the Bank identified and estimated £14.2m as addition to intangible asset during the year (2013:£1.5m). The intangible asset consisted of customer relationships which 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. The change in valuation reflects the revised allocation between goodwill and intangible assets, on the opening balance brought forward, due to new information received during the measurement period.

<b>31 December 2013</b>	<b>Customer list</b>	<b>Internally developed software</b>	<b>Total Intangible assets</b>
<b>Cost</b>	<b>£'000</b>	<b>£'000</b>	<b>£'000</b>
As at 1 January	-	5,156	5,156
Additions	1,465	-	1,465
As at 31 December	1,465	5,156	6,621
<b>Accumulated amortisation</b>			
As at 1 January	-	(5,156)	(5,156)
Charge for the year	(24)	-	(24)
<b>As at 31 December</b>	<b>(24)</b>	<b>(5,156)</b>	<b>(5,180)</b>
<b>Net book value as at 31 December</b>	<b>1,441</b>	<b>-</b>	<b>1,441</b>

**19. Goodwill**

	<b>2014</b>	<b>2013</b>
<b>Cost</b>	<b>£'000</b>	<b>£'000</b>
As at 1 January	1,539	-
Change in valuation	(143)	-
Revised opening balance as at 1 January	1,396	-
Goodwill acquired during the year	12,356	1,539
As at 31 December	13,752	1,539
<b>Accumulated impairment losses</b>		
As at 1 January	-	-
Impairment	-	-
As at 31 December	-	-
<b>Net book value as at 31 December</b>	<b>13,752</b>	<b>1,539</b>

**Notes to the Financial Statements for the Year ended 31 December 2014**

As part of the acquisition of private wealth management business of Morgan Stanley in UK, the Bank identified and estimated £12.3m as addition to goodwill during the year (2013:£1.5m), which represented residual value of purchase price over the identifiable intangible assets which includes the assembled workforce which moved over to the Bank. The change in valuation reflects the revised allocation between goodwill and intangible assets, on the opening balance brought forward, due to new information received during the measurement period. 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.

**20. Deposits**

	<b>2014</b>	<b>2013</b>
	<b>£'000</b>	<b>£'000</b>
Demand deposits	1,098,240	945,585
Savings deposits	945	1,029
Time deposits	1,082,911	952,228
<b>Total deposits</b>	<b>2,182,096</b>	<b>1,898,842</b>

As at 31 December 2014, the remaining maturities for time deposits were as follows:

	<b>2014</b>	<b>2013</b>
	<b>£'000</b>	<b>£'000</b>
Up to 1 month	465,246	559,270
From 1 month to 3 months	271,641	215,586
From 3 months to 1 year	270,292	98,726
From 1 year to 5 years	75,732	78,646
<b>Total time deposits</b>	<b>1,082,911</b>	<b>952,228</b>

**21. Other liabilities**

	<b>2014</b>	<b>2013</b>
	<b>£'000</b>	<b>£'000</b>
Amounts owed to Credit Suisse group undertakings	8,976	10,594
Employee incentive bonus - cash component	9,536	7,770
Share award obligations	8,395	6,211
Other	3,492	11,008
<b>Total other liabilities</b>	<b>30,399</b>	<b>35,583</b>

**22. Provisions**

	<b>Banking</b>	<b>Property</b>	<b>Litigation</b>	<b>Total 2014</b>	<b>Total 2013</b>
	<b>£'000</b>	<b>£'000</b>	<b>£'000</b>	<b>£'000</b>	<b>£'000</b>
Balance as at beginning of the year	184	1,376	1,938	3,498	5,878
Increase in provisions	369	-	15,192	15,561	5,753
Withdrawal	(9)	-	(1,578)	(1,587)	(2,684)
Utilised during the year	(175)	(830)	(1,628)	(2,633)	(5,486)
Changes in foreign exchange rates	-	-	(62)	(62)	37
<b>Balance as at 31 December</b>	<b>369</b>	<b>546</b>	<b>13,862</b>	<b>14,777</b>	<b>3,498</b>

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.

At reporting date a provision of £0.5m (2013: £1.4m) exists for the future rental and related costs of leasehold property, where it is vacant, surplus to the Bank's requirement or where the leasehold property has been sublet at a loss.

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

**Notes to the Financial Statements for the Year ended 31 December 2014**
**23. Long term debt**

	<b>2014</b>	<b>2013</b>
	<b>£'000</b>	<b>£'000</b>
Subordinated debt	25,000	25,000
<b>Total long term debt</b>	<b>25,000</b>	<b>25,000</b>

**24. Share capital and Share premium**

	<b>2014</b>	<b>2013</b>
	<b>£'000</b>	<b>£'000</b>
<b>Share capital</b>		
Opening balance (126,750,000 ordinary voting shares of GBP 1.00 each)	126,750	126,750
Opening balance (41,479,922 participating non-voting shares @ GBP 1.00 each)	41,480	41,480
Issuance of participating non-voting shares (7,397,006@GBP 1.00 each)	7,397	-
Conversion of participating non-voting shares to ordinary shares (48,876,928@ GBP 1.00 each)	-	-
Issuance of ordinary voting shares (69,602,994@ GBP 1.00 each)	69,603	-
<b>Total called-up share capital</b>	<b>245,230</b>	<b>168,230</b>
	<b>2014</b>	<b>2013</b>
	<b>£'000</b>	<b>£'000</b>
<b>Share premium</b>		
Share premium on participating non-voting shares (41,479,922@ GBP 0.27 each)	11,200	11,200
<b>Total share premium</b>	<b>11,200</b>	<b>11,200</b>

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

The Participating Shares do not carry voting rights but carry the right to receive dividends. In all other respects the Participating Shares and the Ordinary Shares rank pari passu.

In 2013, Upper Tier 2 subordinated debt for £50m was early redeemed at fair value resulting in a loss of £2.7m. The total amount (£52.7m) paid to the debt issuer was funded back to the Bank as share capital for Participating non-voting shares.

**25. Employee Share-Based Compensation and Other Compensation Benefits**

Payment of share-based compensation and other compensation benefits 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 Bank. It is the Bank's policy not to make multi-year guarantees.

Compensation expense for share-based and other awards that were granted as deferred compensation is recognised in accordance with the specific terms and conditions of each respective award and is primarily recognised 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 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 2014 and 2013 was £5.0m and £4.5m respectively. The total stock award liability recorded as at 31 December 2014 was £7.2m (2013: £5.3m). The fair value used to calculate the stock award liability was the closing Credit Suisse Group share price as at 31 December 2014 CHF 25.08 (2013: CHF 27.27). The average weighted fair value of awards granted in 2014 was CHF



## Notes to the Financial Statements for the Year ended 31 December 2014

26.49 (2013: CHF 26.39). The intrinsic value of vested share based awards outstanding as at year end was £1.4m (2013: £1.1m).

The recognition of compensation expense for the deferred compensation awards granted in January 2015 began in 2015 and thus had no impact on the 2014 Financial Statements.

Share awards which have not vested or have vested and not delivered, are eligible for dividend equivalent payments. Dividend equivalents are recognised as expense upon payment. Share awards granted after January 1, 2014 do not include the right to receive dividend equivalents during the vesting period.

### Phantom Share awards

Share awards granted in January 2015 are similar to those granted in January 2014 and are awarded to certain employees in the Bank. Each share award granted entitles the holder of the award to receive one Credit Suisse Group ('CSG') share, does not contain a leverage component or a multiplier effect and is subject to service conditions as it vests over three years, such that the share awards vest equally on each of the three anniversaries of the grant date. Share awards granted in January 2011 vest over a four-year period. The value of these 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 Bank, contain restrictive covenants and cancellation provisions and generally vest between zero and five years.

The number of share awards was determined by dividing the deferred component of variable compensation being granted as shares by the average price of a CSG share over the two business days ended January 16, 2015. Share awards granted after January 1, 2014 do not include the right to receive dividend equivalents during the vesting period. The fair value of each January 2015 share award was CHF 16.94 on the grant date. The fair value was based on a valuation using the CSG's share price on the date of grant and discounted for expected dividends for 2015, 2016 and 2017 of CHF 0.66, CHF 1.03 and CHF 1.39 respectively.

In order to comply with regulatory requirements, the CSG awarded an alternative form of share awards as a component of unrestricted cash to certain senior employees. For 2014, 2013 and 2012, these employees received a portion of the amount they otherwise would have received in cash in the form of blocked shares. The shares remain blocked for a period of time, which ranges from six months to three years, depending on the location, after which they are no longer subject to restrictions. Blocked shares granted on January 16, 2015 vest immediately upon grant, have no future service requirements and were attributed to services performed in 2014.

### Movements in the number of Phantom Share outstanding were as follows:

	2014	2013
As at 1 January	183,565	89,929
Granted	261,554	164,167
Shares transferred in/out	(2,654)	2,176
Delivered	(116,013)	(71,987)
Forfeited	(10,572)	(720)
<b>As at 31 December</b>	<b>315,880</b>	<b>183,565</b>

### Performance share awards ('PSA')

Certain employees received a portion of their deferred variable compensation in the form of performance share awards, which are subject to explicit performance-related claw-back provisions. Each performance share award granted entitles the holder of award to receive one CSG share. Performance share awards also vest over three years, such that the performance share awards vest equally on each of the three anniversaries of the grant date. Unlike the Phantom share awards, however, the outstanding performance share awards are subject to a negative adjustment in the event of a divisional loss or a negative CSG ROE. Outstanding performance shares are subject to a negative adjustment in the event of a divisional loss, unless there is a negative CSG ROE that would call for a negative adjustment greater than the divisional adjustment for the year, in which case the negative adjustment is based on the CSG's negative ROE. For

## Notes to the Financial Statements for the Year ended 31 December 2014

employees in Shared Services, the negative adjustment only applies in the event of a negative CSG ROE and is not linked to the performance of the divisions.

The performance share awards granted in 2015 are identical to those granted in 2014, 2013 and 2012, with the exception of the performance criteria which, in 2013 were based on underlying ROE and in 2012 were based on reported ROE, compared to the performance share awards granted in 2015 and 2014, which were based on strategic ROE.

The number of performance share awards granted to employees 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 two business days ended January 16, 2015. The fair value of each January 2015 Performance Share award was CHF 16.94 on the grant date. Performance share awards granted after January 1, 2014 do not include the right to receive dividend equivalents during the vesting period. The fair value was based on a valuation using the CSG's share price on the date of grant and discounted for expected dividends for 2015, 2016 and 2017 of CHF 0.66, CHF 1.03 and CHF 1.39 respectively.

### Movements in the number of PSA outstanding were as follows:

	2014	2013
As at 1 January	79,396	44,545
Granted	53,217	52,788
Shares transferred in/out	(1,698)	(3,106)
Delivered	(31,419)	(14,831)
Forfeited	-	-
<b>As at 31 December</b>	<b>99,496</b>	<b>79,396</b>

### Contingent Capital Awards

Contingent Capital Awards ('CCA') were granted in January 2015 and 2014 as part of 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 provide a conditional right to receive semi-annual cash payments of interest equivalents at a rate of 4.85% and 4.75% per annum over the six-month Swiss franc London Interbank Offered Rate ('LIBOR') or 5.75% and 5.33% per annum over the six-month US dollar LIBOR, for Swiss franc and US-denominated awards for 2015 and 2014 respectively, until settled. Employees who received compensation in Swiss francs could elect to receive CCA denominated in Swiss francs or US dollars, and all other employees received CCA denominated in US dollars.

CCA are scheduled to vest on the third anniversary of the grant date and will be expensed over three years from the grant date. However, because CCA qualify as additional Tier 1 capital of CSG, the timing and form of distribution upon settlement is subject to approval by the Swiss Financial Market Supervisory Authority ('FINMA'). At settlement, employees will receive either a contingent capital instrument or a cash payment based on the fair value of the CCA. CSG will determine that fair value at its discretion. CSG intends to grant CCA as one of its annual deferred variable compensation awards in future years.

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

- 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 recognised during the year ended December 31, 2014 was £ 0.4m (2013: Nil).

### Plus Bond Awards

The Plus Bond award is essentially a fixed income instrument, denominated in US dollars, which provides a coupon payment that is commensurate with market-based pricing. Plus Bond award holders are 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 will settle in the summer of 2016 based on the amount of the initial award less portfolio losses, if any, in excess of a

## Notes to the Financial Statements for the Year ended 31 December 2014

first loss portion retained by CSG of USD 600 million. The value of the Plus Bond awards is based on the performance of a portfolio of unrated and sub-investment-grade asset-backed securities that are held in inventory by various trading desks of CSG's Investment Banking division. While the Plus Bond award is a cash-based instrument, CSG reserves the right to settle the award in CSG shares based on the share price at the time of final distribution. In addition, subject to oversight procedures, CSG retains the right to prepay all or a portion of the Plus Bond award in cash at any time and, in the event of certain regulatory developments or changes in capital treatment, exchange the award into CSG shares. The Plus Bond award plan contributes to a reduction of CSG's risk-weighted assets and constitutes a risk transfer from CSG to the Plus Bond award holders.

The Plus Bonds were fully vested and expensed on the grant date of December 31, 2012.

Certain employees were given the opportunity in early 2013 to voluntarily reallocate a portion of the share award component of their deferred awards into the Plus Bond award. The Plus Bond awards resulting from the voluntary reallocation will vest on the third anniversary of the grant date in January 17, 2016 and will be expensed over the vesting period.

Total compensation expense recognised during the year ended December 31, 2014 was £ 0.04m (2013: £ 0.2m).

### 2011 Partner Asset Facility

As part of the 2011 annual compensation process, certain employees were awarded a portion of their deferred variable compensation 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.

The PAF2 units have a stated maturity of four years, but may be extended to nine years at the election of either CSG or the holders acting collectively. This election will not be made later than the end of the third year following the grant date. PAF2 units are denominated in Swiss francs and US dollars. Holders will receive a semi-annual cash interest payment equivalent to an annual return of 5% (Swiss franc-denominated awards) or 6.5% (US dollar-denominated awards) applied to the then current balance of the PAF2 units. At maturity, PAF2 holders will receive a final settlement in an amount equal to the original award value less any losses. CSG can settle the PAF2 units in cash or an equivalent value in shares at its discretion.

In January 2012, CSG awarded PAF2 units and the associated compensation expenses were fully expensed in the first quarter of 2012, as the awards were fully vested as of March 31, 2012. Compensation expense will continue to be updated at each reporting period date to reflect any change in the underlying fair value of the PAF2 awards until the awards are finally settled.

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: participants elect for their award to be referenced to a Capital Opportunity Facility ('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

**Notes to the Financial Statements for the Year ended 31 December 2014**

- ii. Contingent Capital Awards: participants elect to receive CCA, with similar terms to the instruments granted as part of the 2013 compensation awards. The principal differences between the two forms of CCA are that these CCA are expected to settle approximately one year earlier and provide semi-annual cash payments of interest equivalents at slightly lower rates. Settlement is expected to occur in February 2016, subject to regulatory approvals.

Total compensation expense recognised for the PAF2 award during the year ended December 31, 2014 was £ 0.01m (2013: £ 0.1m).

Total compensation expense recognised for the PAF2 CCA during the year ended December 31, 2014 was £ 0.08m (2013: Nil).

Total compensation expense recognised for the COF during the year ended December 31, 2014 was £ 0.01m (2013: Nil).

**Adjustable Performance Plan Awards**

The Adjustable Performance Plan ('APP') is a deferred compensation plan for certain employees. CSG granted APP cash awards as part of deferred compensation for 2009 ('2009 APP') and 2010 ('2010 APP').

The 2009 APP cash awards were fully vested and were expensed as of December 31, 2012 and were delivered in the first half of 2013.

The 2010 APP cash awards vest over a four-year period, with the final payout value subject to an upward or downward adjustment, depending on the financial performance of the specific business areas and the CSG ROE.

The adjustments are determined on an annual basis, increasing or decreasing the outstanding balances by a percentage equal to the reported CSG ROE, unless the division that granted the awards incurs a pre-tax loss. In this case, outstanding awards in that division will be subject to a negative adjustment of 15% for every CHF 1 billion of loss, unless a negative CSG ROE applies for that year and is greater than the divisional adjustment. For employees in Shared Services and other support functions, all outstanding 2010 APP cash awards are linked to CSG's adjusted profit or loss and the CSG ROE, but are not dependent upon the adjusted profit or loss of the business areas that they support.

Total compensation (income) recognised for APP cash awards during the year ended December 31, 2014 was £ (0.01)m (2013: £ (0.2)m).

In July 2012, CSG executed a voluntary exchange offer, under which employees had the right to voluntarily convert all or a portion of their respective unvested APP cash awards into APP share awards at a conversion price of CHF 16.29. Each APP share award has a grant-date fair value of CHF 16.79 and contains the same contractual term, vesting period, performance criteria and other terms and conditions as the original APP cash award.

**Movements in the number of APP Share outstanding were as follows:**

	<b>2014</b>	<b>2013</b>
As at 1 January	54,547	94,959
Granted	-	-
Shares transferred in/out	36	(638)
Delivered	(27,148)	(39,495)
Forfeited	(542)	(279)
<b>As at 31 December</b>	<b>26,893</b>	<b>54,547</b>

**Scaled Incentive Share Unit ('SISU')**

The Scaled Incentive Share Units ('SISUs') plan is a share-based, long-term incentive plan. SISUs were granted in January 2010 as part of 2009 variable deferred compensation. SISUs are similar to ISUs (refer to Incentive Share Unit) except with four-year vesting, subject to early retirement rules, and the leverage component contains an additional performance condition which could increase or decrease the number of any additional shares. The SISU base unit vests equally on each of the four anniversaries of the grant date, whereas the SISU leverage unit will only vest on the fourth

**Notes to the Financial Statements for the Year ended 31 December 2014**

anniversary of the grant date. The new performance condition links the final delivery of additional shares to an average of the reported CSG ROE. If the CSG average ROE over the four-year period is higher than a pre-set target established at the grant date, the number of additional shares calculated by reference to the average CSG share price increase will be adjusted positively, and if it is below the target, the number of additional shares will be adjusted negatively, but not below zero. The final number of additional shares to be delivered at the end of the four-year vesting period will be determined first on the basis of the CSG share price development (share price multiplier) and then on the basis of the CSG average ROE development (ROE multiplier). CSG shares are delivered shortly after the SISU base component and SISU leverage component vest. The number of additional shares per SISU was capped at a maximum of three times the grant date value, with a delivery of no more than three shares, prior to the application of the scaling factor, which can be as high as up to 2.5.

The SISUs granted in January 2010 were settled in 2014 and did not have a value at settlement as the CSG share price performance was below the minimum predefined target.

The fair value of the 2010 SISU base unit was CHF 50.30 and the fair value of the 2010 SISU leverage units was CHF 13.44.

**Movements in the number of SISUs outstanding were as follows:**

	<b>2014</b>		<b>2013</b>	
<b>SISU Awards</b>	<b>Base</b>	<b>Leverage</b>	<b>Base</b>	<b>Leverage</b>
As at 1 January	7,949	25,734	18,682	28,613
Granted	-	-	-	-
Share transferred in/out	-	-	(155)	(155)
Delivered	(7,849)	(25,734)	(8,538)	-
Forfeited	(100)	-	(2,040)	(2,724)
<b>As at 31 December</b>	<b>-</b>	<b>-</b>	<b>7,949</b>	<b>25,734</b>

**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:**

	<b>2014</b>		<b>2013</b>	
<b>ISU Awards</b>	<b>Base</b>	<b>Leverage</b>	<b>Base</b>	<b>Leverage</b>
As at 1 January	797	1,497	3,182	9,209
Granted	-	-	-	-
Share transferred in/out	-	-	-	-
Delivered	-	-	(2,385)	(7,712)
Forfeited	-	-	-	-
<b>As at 31 December</b>	<b>797</b>	<b>1,497</b>	<b>797</b>	<b>1,497</b>

**Notes to the Financial Statements for the Year ended 31 December 2014**
**26. 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 accounts for its share of the plan using defined contribution accounting. During 2014 the Bank expensed £1.80m (2013: £1.74m) in respect of its contributions to the UK defined benefit scheme.

**Profile of the pension plans**

Approximately 13% of the UK plan's final salary liabilities are attributable to current employees, 71% to former employees yet to retire and 16% to current pensioners and dependants.

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 2014 and 2013, and the amounts included in CSSEL's consolidated Financial Statements for the defined benefit pension plan as at 31 December 2014 and 2013 respectively:

	<b>Defined benefit pension plans</b>	
	<b>2014</b>	<b>2013</b>
	<b>£'000</b>	<b>£'000</b>
<b>Defined benefit obligation – 1 January</b>	<b>1,018,760</b>	<b>931,633</b>
Current service cost	3,303	3,455
Interest cost	46,662	44,531
Actuarial losses – assumptions	174,449	57,350
arising out of change in demographic assumptions	-	(8,060)
arising out of change in financial assumptions	174,449	65,410
Actuarial losses – experience	(15,035)	(3,251)
Benefit payments	(22,348)	(14,958)
Past Service costs (including curtailments)	-	-
<b>Defined benefit obligation – 31 December</b>	<b>1,205,791</b>	<b>1,018,760</b>
<b>Fair value of plan assets – 1 January</b>	<b>1,370,431</b>	<b>1,335,555</b>
Interest on plan assets	62,969	64,059
Actuarial gains/(losses)	322,298	(18,824)
<b>Actual return on plan assets</b>	<b>385,267</b>	<b>45,235</b>
Employer Contributions	5,646	5,625
Administrative expense	(902)	(1,026)
Benefit payments	(22,348)	(14,958)
<b>Fair value of plan assets – 31 December</b>	<b>1,738,094</b>	<b>1,370,431</b>

**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 2011 and showed a deficit of £61.2 million. The Bank and Trustee agreed that no future shortfall contributions would be paid because the shortfall contributions paid soon after the valuation date and the allowance for post-valuation experience were sufficient to recover the shortfall.

The next funding valuation is due no later than 31 December 2014 at which progress towards full-funding will be reviewed.

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 2015 are approximately £5.7m.

**Notes to the Financial Statements for the Year ended 31 December 2014**
**Assumptions**

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

<b>31 December in %</b>	<b>2014</b>	<b>2013</b>
<b>Benefit obligations</b>	<b>%</b>	<b>%</b>
Discount rate	3.70	4.60
Retail Price Inflation	3.00	3.35
Consumer Price Inflation	2.00	2.35
Pension increases <sup>(1)</sup>	2.91	3.20
Salary increases	4.25	4.60
<b>Net periodic pension cost</b>		
Discount rate	4.60	4.80
Salary increases	4.60	4.35

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

**Mortality Assumptions**

The life expectancy assumptions for 2014 are similar to those used for 2013.

The assumptions for life expectancy for the 2014 benefit obligation pursuant to IAS 19 are based on the "SAPS light" base table with improvements in mortality in line with the core CMI 2013 projections and a scaling factor of 100%. Underpins to future mortality improvement have also been incorporated, the annual long term rate of improvement being 1.25% p.a.

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

	<b>2014</b>	<b>2013</b>
<b>Life expectancy at age 60 for current pensioners aged 60 (years)</b>		
- Males	28.8	28.7
- Females	30.1	30.0
<b>Life expectancy at age 60 for future pensioners currently aged 40 (years)</b>		
- Males	30.8	30.7
- Females	32.1	32.0

**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):

	<b>DBO £'000</b>	<b>Increase %</b>	<b>DBO £'000</b>	<b>Decrease %</b>
<b>Benefit obligation</b>				
One-percentage point change				
+1%/ -1% Discount rate	1,538	28	956	(21)
+1%/ -1% Inflation rate	1,416	17	1,028	(15)
+1%/ -1% Salary increases rate	1,213	1	1,199	(1)
+1/ -1 year to life expectancy at 60	1,231	2	1,180	(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 2014 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 2014**

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 the Bank) and contribution schedules (which requires the agreement of the Bank) lies with the Board of Trustees. The Bank'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 Bank, 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 80% of interest rate and inflation risk arising from the Economic Value 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 Economic Value 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 are used to enhance long term returns while improving portfolio diversification.

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 are used to enhance long term returns while improving portfolio diversification.

Investment risk is measured and monitored on an ongoing basis through annual liability measurements, periodic asset/liability studies and quarterly investment portfolio reviews. To limit investment risk, the Bank's pension plans follow defined strategic asset allocation guidelines. Depending on the market conditions, these guidelines are even more limited on a short-term basis.

**Risks Associated with UK Plan**

The UK plan exposes the Bank 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.



## Notes to the Financial Statements for the Year ended 31 December 2014

### Life expectancy

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

### Estimated future benefit payments

	Defined Benefit Pension Plans UK Plans 2014
<b>Estimated future benefit payments (£'000s)</b>	
2015	9,660
2016	10,731
2017	12,210
2018	14,044
2019	16,229
For five years thereafter	129,247

Notes to the Financial Statements for the Year ended 31 December 2014

Plan assets measured at fair value

Plan assets measured at fair value	31 December 2014				31 December 2013			
	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	
Cash and cash equivalents	-	164,904	164,904	9.5	-	210,272	210,272	15.3
Debt securities	774,622	306,538	1,081,160	62.2	605,997	257,142	863,139	62.9
of which governments	362,830	3,213	366,043	21.1	247,395	2,503	249,898	18.2
of which Corporates	411,792	303,325	715,117	41.1	358,602	254,639	613,241	44.7
Equity securities	166,498	62,978	229,476	13.2	116,442	1,006	117,448	8.6
Derivatives	-	178,267	178,267	10.3	306	(15,546)	(15,240)	(1.1)
Alternative investments	-	84,287	84,287	4.8	8,648	186,164	194,812	14.2
of which hedge funds	-	84,287	84,287	4.8	-	180,357	180,357	13.2
of which other (ABS etc.)	-	-	-	-	8,648	5,807	14,455	1.1
<b>Total plan assets UK Plans</b>	<b>941,120</b>	<b>796,974</b>	<b>1,738,094</b>	<b>100.0</b>	<b>731,393</b>	<b>639,038</b>	<b>1,370,431</b>	<b>100.0</b>

Defined Contribution Pension Plans

The Bank also contributes to various defined contribution pensions primarily in the United Kingdom. The contributions in these plans during 2014 and 2013 were £2.56m and £2.19m respectively.

## Notes to the Financial Statements for the Year ended 31 December 2014

### 27. 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 AG and Credit Suisse Group AG, which are those of the smallest and largest 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 2014			31 December 2013		
	Parent	Fellow Group companies	Total	Parent	Fellow Group companies	Total
	£ '000	£ '000	£ '000	£ '000	£ '000	£ '000
<b>Assets</b>						
Cash and cash equivalents	-	25,173	25,173	-	41,604	41,604
Interest-bearing deposits with banks	-	55,270	55,270	-	82,272	82,272
Securities purchased under resale agreements	-	974,128	974,128	-	782,578	782,578
Trading financial assets at fair value through profit or loss	-	11,091	11,091	-	6,530	6,530
Other assets	4,148	5,214	9,362	1,617	2,837	4,454
<b>Total assets</b>	<b>4,148</b>	<b>1,070,876</b>	<b>1,075,024</b>	<b>1,617</b>	<b>915,821</b>	<b>917,438</b>
<b>Liabilities</b>						
Deposits	-	659,293	659,293	-	501,269	501,269
Trading financial liabilities at fair value through profit or loss	-	10,064	10,064	-	2,223	2,223
Other liabilities	2,738	6,238	8,976	907	9,687	10,594
Long term debt	-	25,000	25,000	-	25,000	25,000
<b>Total liabilities</b>	<b>2,738</b>	<b>700,595</b>	<b>703,333</b>	<b>907</b>	<b>538,179</b>	<b>539,086</b>

Notes to the Financial Statements for the Year ended 31 December 2014

b) Related party income statement

	31 December 2014			31 December 2013		
	Parent	Fellow Group companies	Total	Parent	Fellow Group companies	Total
	£ '000	£ '000	£ '000	£ '000	£ '000	£ '000
Interest income	-	1,142	1,142	-	1,575	1,575
Interest expense	-	(4,378)	(4,378)	-	(4,632)	(4,632)
Fees, commission and other	5,285	9,437	14,722	3,114	4,896	8,010

c) Related party off balance sheet item

	31 December 2014			31 December 2013		
	Parent	Fellow Group companies	Total	Parent	Fellow Group companies	Total
	£ '000	£ '000	£ '000	£ '000	£ '000	£ '000
Derivatives notional amounts	-	838,036	838,036	-	951,875	951,875
Securities purchased under resale agreements	-	1,029,269	1,029,269	-	831,648	831,648
Undrawn securitised debt facility <sup>1</sup>	-	115,000	115,000	-	115,000	115,000
<b>Total</b>	-	<b>1,982,305</b>	<b>1,982,305</b>	-	<b>1,898,523</b>	<b>1,898,523</b>

<sup>1</sup> In 2007, 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. In 2011, another £100m subordinated debt facility has been put in place with Credit Suisse PSL GmbH.

## Notes to the Financial Statements for the Year ended 31 December 2014

### d) Remuneration

#### Disclosure required by Companies Act 2006

#### Remuneration of Directors

	2014 £'000	2013 £'000
Emoluments	752	722
Long term incentive schemes:		
Amounts Paid under Deferred Cash Awards	21	33
Amounts Delivered under Share Based Awards	195	217
<b>Total</b>	<b>968</b>	<b>972</b>
Compensation for loss of office	183	-
Bank's contributions to defined contribution and benefits plan	-	81
Bank's contributions to defined contribution	66	-
<b>Total</b>	<b>1,217</b>	<b>1,053</b>

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. 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 £357k (2013: £319k). The director was also a member of a defined contribution plan and the contribution paid during the year into the plan was £43k (2013: £46k). 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 2014 was £1.40m (2013: £1.18m).

### e) Number of Directors and Benefits

	Number of Directors 2014	Number of Directors 2013
Retirement benefits are accruing to the following number of Directors under:		
Defined contribution schemes	8	4
Defined benefit schemes	-	-
No scheme	2	2
Both defined contribution and defined benefit	-	1
The number of Directors who exercised share options	-	-
<b>Directors in respect of whom services were received or receivable under long term incentive schemes</b>	<b>10</b>	<b>7</b>

## Notes to the Financial Statements for the Year ended 31 December 2014

### f) Remuneration of Key Management Personnel

	2014 £'000	2013 £'000
Emoluments	2,889	1,712
Long term incentive schemes	616	433
<b>Total</b>	<b>3,505</b>	<b>2,145</b>
Compensation for loss of office	304	-
Bank's contributions to defined contribution and benefits plan	231	193
<b>Total</b>	<b>4,040</b>	<b>2,338</b>

The numbers disclosed in the 'Remuneration of Key Management Personnel' are based on amounts charged to 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

	2014	2013
Number of shares	52,795	24,979

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 Directors and Key Management Personnel

Loans outstanding from Directors or key management personnel of the bank as at 31 December 2014 were £3k (2013: Nil).

## 28. Employees

The average number of persons employed during the year was as follows:

	Number 2014	Number 2013
PBWM and Shared services	236	165

The average number of employees calculated as the average of January and December's total FTEs.

**Notes to the Financial Statements for the Year ended 31 December 2014**
**29. Guarantees and commitments**

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

<b>31 December 2014</b>	<b>Maturity &lt;1 year £'000</b>	<b>Maturity 1-3 years £'000</b>	<b>Maturity 3-5 years £'000</b>	<b>Maturity &gt;5 years £'000</b>	<b>Total amount £'000</b>	<b>Collateral received £'000</b>
Credit guarantees and similar instruments	7,201	13,167	3,680	-	24,048	24,048
<b>Total guarantees</b>	<b>7,201</b>	<b>13,167</b>	<b>3,680</b>	<b>-</b>	<b>24,048</b>	<b>24,048</b>
Loan commitments	38,459	30,361	213	-	69,033	69,033
<b>Total other commitments</b>	<b>38,459</b>	<b>30,361</b>	<b>213</b>	<b>-</b>	<b>69,033</b>	<b>69,033</b>

<b>31 December 2013</b>	<b>Maturity &lt;1 year £'000</b>	<b>Maturity 1-3 years £'000</b>	<b>Maturity 3-5 years £'000</b>	<b>Maturity &gt;5 years £'000</b>	<b>Total gross amount £'000</b>	<b>Collateral received £'000</b>
Credit guarantees and similar instruments	13,285	453	12,995	-	26,733	26,733
<b>Total guarantees</b>	<b>13,285</b>	<b>453</b>	<b>12,995</b>	<b>-</b>	<b>26,733</b>	<b>26,733</b>
Loan commitments	11,400	3,277	1,622	1,401	17,700	17,700
<b>Total other commitments</b>	<b>11,400</b>	<b>3,277</b>	<b>1,622</b>	<b>1,401</b>	<b>17,700</b>	<b>17,700</b>

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:

	<b>2014 £'000</b>	<b>2013 £'000</b>
Up to 1 year	1,484	1,484
From 1 year to 5 years	-	1,484
<b>Total future minimum lease commitments</b>	<b>1,484</b>	<b>2,968</b>

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

	<b>2014 £'000</b>	<b>2013 £'000</b>
Minimum rentals	1,453	1,453
Sublease rental income	(1,078)	(1,078)
<b>Total net rental expenses</b>	<b>375</b>	<b>375</b>

**Notes to the Financial Statements for the Year ended 31 December 2014**
**30. 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 amortized cost	Total carrying amount	Total fair value
As at 31 December 2014	£'000	£'000	£'000	£'000	£'000	£'000
<b>Financial assets</b>						
Cash and due from banks	-	-	-	26,306	26,306	26,306
Interest-bearing deposits with banks	-	-	-	55,270	55,270	55,269
Securities purchased under resale agreements	-	-	-	974,128	974,128	974,128
Trading financial assets at fair value through profit or loss	21,183	-	-	-	21,183	21,183
Financial assets available for sale	-	-	3,265	-	3,265	3,265
Other loans and receivables	-	1,340,992	-	-	1,340,992	1,341,139
Other assets	-	-	-	19,607	19,607	19,607
<b>Total financial assets</b>	<b>21,183</b>	<b>1,340,992</b>	<b>3,265</b>	<b>1,075,311</b>	<b>2,440,751</b>	<b>2,440,897</b>
<b>Financial liabilities</b>						
Deposits	-	-	-	2,182,096	2,182,096	2,182,087
Trading financial liabilities at fair value through profit or loss	20,638	-	-	-	20,638	20,638
Other liabilities	-	-	-	21,121	21,121	21,121
Long term debt	-	-	-	25,000	25,000	24,999
<b>Total financial liabilities</b>	<b>20,638</b>	<b>-</b>	<b>-</b>	<b>2,228,217</b>	<b>2,248,855</b>	<b>2,248,845</b>



Notes to the Financial Statements for the Year ended 31 December 2014

Financial assets and liabilities by categories

	Held for Trading	Loans and receivables	Available for sale	Other amortized cost	Total carrying amount	Total fair value
As at 31 December 2013	£'000	£'000	£'000	£'000	£'000	£'000
<b>Financial assets</b>						
Cash and due from banks	-	-	-	42,898	42,898	42,898
Interest-bearing deposits with banks	-	-	-	82,272	82,272	80,483
Securities purchased under resale agreements	-	-	-	782,578	782,578	782,578
Trading financial assets at fair value through profit or loss	9,138	-	-	-	9,138	9,138
Financial assets available for sale	-	-	3,131	-	3,131	3,131
Other loans and receivables	-	1,160,872	-	-	1,160,872	1,212,022
Other assets	-	-	-	12,591	12,591	12,591
<b>Total financial assets</b>	<b>9,138</b>	<b>1,160,872</b>	<b>3,131</b>	<b>920,339</b>	<b>2,093,480</b>	<b>2,142,841</b>
<b>Financial liabilities</b>						
Deposits	-	-	-	1,898,842	1,898,842	1,896,218
Trading financial liabilities at fair value through profit or loss	8,340	-	-	-	8,340	8,340
Other liabilities	-	-	-	34,789	34,789	34,789
Long term debt	-	-	-	25,000	25,000	25,013
<b>Total financial liabilities</b>	<b>8,340</b>	<b>-</b>	<b>-</b>	<b>1,958,631</b>	<b>1,966,971</b>	<b>1,964,360</b>

## Notes to the Financial Statements for the Year ended 31 December 2014

### 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, lombard 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 a 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 are 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 2014**

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
<b>As at 31 December 2014</b>				
<b>Assets</b>	<b>£'000</b>	<b>£'000</b>	<b>£'000</b>	<b>£'000</b>
<b>Derivatives</b>	-	21,183	-	21,183
of which foreign exchange products	-	21,183	-	21,183
<b>Trading financial assets at fair value through profit or loss</b>	-	21,183	-	21,183
Membership exchanges	-	-	3,265	3,265
<b>Financial assets available for sale</b>	-	-	3,265	3,265
<b>Total assets at fair value</b>	-	21,183	3,265	24,448
<b>Liabilities</b>				
<b>Derivatives</b>	-	20,638	-	20,638
of which foreign exchange products	-	20,638	-	20,638
<b>Trading financial liabilities at fair value through profit or loss</b>	-	20,638	-	20,638
<b>Total liabilities at fair value</b>	-	20,638	-	20,638
<b>As at 31 December 2013</b>				
<b>Assets</b>	<b>£'000</b>	<b>£'000</b>	<b>£'000</b>	<b>£'000</b>
<b>Debt securities</b>	-	-	348	348
of which corporates	-	-	348	348
<b>Derivatives</b>	-	8,790	-	8,790
of which foreign exchange products	-	8,790	-	8,790
<b>Trading financial assets at fair value through profit or loss</b>	-	8,790	348	9,138
Membership exchanges	-	-	3,131	3,131
<b>Financial assets available for sale</b>	-	-	3,131	3,131
<b>Total assets at fair value</b>	-	8,790	3,479	12,269
<b>Liabilities</b>				
<b>Derivatives</b>	-	8,340	-	8,340
of which foreign exchange products	-	8,340	-	8,340
<b>Trading financial liabilities at fair value through profit or loss</b>	-	8,340	-	8,340
<b>Total liabilities at fair value</b>	-	8,340	-	8,340

Notes to the Financial Statements for the Year ended 31 December 2014

Assets and liabilities measured at fair value on a recurring basis for Level 3

As at 31 December 2014	Balance at beginning of period	Purchases	Sales	Trading revenues	Gains included in AOCI	Foreign currency translation	Balance at end of period
	£'000	£'000	£'000	£'000	£'000	£'000	£'000
<b>Assets</b>							
<b>Debt securities</b>	<b>348</b>	<b>-</b>	<b>(117)</b>	<b>(245)</b>	<b>-</b>	<b>14</b>	<b>-</b>
of which corporates	348	-	(117)	(245)	-	14	-
<b>Trading financial assets at fair value through profit or loss</b>	<b>348</b>	<b>-</b>	<b>(117)</b>	<b>(245)</b>	<b>-</b>	<b>14</b>	<b>-</b>
Membership exchanges	3,131	-	-	-	134	-	3,265
<b>Financial assets available for sale</b>	<b>3,131</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>134</b>	<b>-</b>	<b>3,265</b>
<b>Total assets at fair value</b>	<b>3,479</b>	<b>-</b>	<b>(117)</b>	<b>(245)</b>	<b>134</b>	<b>14</b>	<b>3,265</b>
<b>As at 31 December 2013</b>							
<b>Assets</b>							
<b>Debt securities</b>	<b>-</b>	<b>431</b>	<b>-</b>	<b>(83)</b>	<b>-</b>	<b>-</b>	<b>348</b>
of which corporates	-	431	-	(83)	-	-	348
<b>Trading financial assets at fair value through profit or loss</b>	<b>-</b>	<b>431</b>	<b>-</b>	<b>(83)</b>	<b>-</b>	<b>-</b>	<b>348</b>
Membership exchanges	2,783	-	-	-	348	-	3,131
<b>Financial assets available for sale</b>	<b>2,783</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>348</b>	<b>-</b>	<b>3,131</b>
<b>Total assets at fair value</b>	<b>2,783</b>	<b>431</b>	<b>-</b>	<b>(83)</b>	<b>348</b>	<b>-</b>	<b>3,479</b>

Notes to the Financial Statements for the Year ended 31 December 2014

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

	Trading revenues	2014 Gains included in AOCI	Total revenues	Trading revenues	2013 Gains included in AOCI	Total revenues
	£'000	£'000	£'000	£'000	£'000	£'000
<b>Gains and losses on assets and liabilities</b>						
<b>Net realised/unrealised gains/(losses) included in net revenues</b>	<b>(245)</b>	<b>134</b>	<b>(111)</b>	<b>(83)</b>	<b>348</b>	<b>265</b>
Whereof:						
<b>Changes in unrealised gains or losses relating to assets and liabilities still held as of the reporting date</b>						
Trading financial assets at fair value through profit or loss	-	-	-	(83)	-	(83)
Financial assets available for sale	-	134	134	-	348	348
<b>Total changes in unrealised gains/(losses) relating to assets and liabilities still held as of the reporting date</b>	<b>-</b>	<b>134</b>	<b>134</b>	<b>(83)</b>	<b>348</b>	<b>265</b>

Both observable and unobservable inputs may be used to determine the fair value of positions that have been classified with in 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 2014**
**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
<b>As at 31 December 2014</b>				
	£'000	£'000	£'000	£'000
<b>Financial assets</b>				
Cash and due from banks	26,306	-	-	26,306
Interest-bearing deposits with banks	11,824	43,445	-	55,269
Securities purchased under resale agreements	-	974,128	-	974,128
Other loans and receivables	-	1,341,139	-	1,341,139
Other assets	-	19,607	-	19,607
<b>Total financial assets at fair value</b>	<b>38,130</b>	<b>2,378,319</b>	<b>-</b>	<b>2,416,449</b>
<b>Financial liabilities</b>				
Deposits	1,099,185	1,082,902	-	2,182,087
Other liabilities	-	21,121	-	21,121
Long term debt	-	24,999	-	24,999
<b>Total financial liabilities at fair value</b>	<b>1,099,185</b>	<b>1,129,022</b>	<b>-</b>	<b>2,228,207</b>

	Level 1	Level 2	Level 3	Total at fair value
<b>As at 31 December 2013</b>				
	£'000	£'000	£'000	£'000
<b>Financial assets</b>				
Cash and due from banks	42,898	-	-	42,898
Interest-bearing deposits with banks	48,947	31,536	-	80,483
Securities purchased under resale agreements	-	782,578	-	782,578
Other loans and receivables	-	1,212,022	-	1,212,022
Other assets	-	12,591	-	12,591
<b>Total financial assets at fair value</b>	<b>91,845</b>	<b>2,038,727</b>	<b>-</b>	<b>2,130,572</b>
<b>Financial liabilities</b>				
Deposits	946,614	949,604	-	1,896,218
Other liabilities	-	28,208	-	28,208
Long term debt	-	25,013	-	25,013
<b>Total financial liabilities at fair value</b>	<b>946,614</b>	<b>1,002,825</b>	<b>-</b>	<b>1,949,439</b>

**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.

## Notes to the Financial Statements for the Year ended 31 December 2014

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.

## 31. Assets pledged or assigned

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

	2014	2013
	£'000	£'000
Fair value of collateral received with the right to sell or repledge	1,029,269	831,648
<b>Total of fair value of collateral received with the right to sell or repledge</b>	<b>1,029,269</b>	<b>831,648</b>

As at 31 December 2014 and 2013, 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, upon default of the lender of securities.

## Notes to the Financial Statements for the Year ended 31 December 2014

### 32. Financial instruments risk position

#### a) Risk management oversight

##### Overview

The Bank is part of CS group and its risks are managed in accordance with global CS group policies. The primary objectives of risk management are to protect the Bank's financial strength and reputation, while ensuring capital is well deployed to support business activities and grow shareholder value. The Bank's risk management process is designed to ensure there are sufficient independent controls to measure, monitor and control risks in accordance with the Bank's risk framework and in consideration of industry best practice. The Board of Directors is ultimately accountable for the management of all the risks associated with the business; primary responsibility lies with the Bank's senior business line managers, who are accountable for inter alia counterparty risk, market risk, liquidity risk, operational risk, conduct risk and legal and reputational risk.

##### Risk governance

The prudent taking of risk is in line with CSUK's strategic priorities. CSUK's risk appetite establishes a direct link between its strategy and performance management, its risk management and its capital structure. This approach ensures that CSUK incorporates risk factors in any major strategic or tactical decision, so that actions are compatible with an agreed appetite for risk. The Bank's risk management framework is based on transparency, Management accountability and independent oversight. The Board of Directors sets the overall framework for risk appetite and is advised by the CSUK Risk Committee ('CSUK RC'), which is chaired by a Non-Executive Director.

##### Risk organisation

Risks arise in all of the 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 Chief Executive Officer ('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 the 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 Analytics and Reporting ('RFDAR') is responsible for reporting, risk model validation, systems implementation and policies;
- 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 Reputational Risk and Sustainability Committee set policies and reviews processes and significant cases relating to reputational risks. The Risk



## Notes to the Financial Statements for the Year ended 31 December 2014

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 Chief Risk Officer assists and supports the Board of Directors in carrying out this responsibility. 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.

The Bank's independent risk function is headed by the Chief Risk Officer ('CRO'). The CRO is responsible for overseeing the Bank's risk profile across all risk types and for ensuring independence of the risk management.

Business Risk Management ('BRM') supports and reports to the CSUK CEO, 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 BRM also chairs the Operational Risk and Compliance Committee and partners with other teams and functions in CSUK to raise risk awareness and embed accountability.

CRM is independent from the Front Office and is managed by CSUK's Location Head of CRM. 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.

- **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.

The Advisory and Control Group ('ACG') is an independent control function providing legal and compliance support and guidance to CSUK. ACG provides interpretation and analysis of all legal and regulatory developments which affect the platform and its business. This includes documentation, procuring external legal counsel, approval of financial promotions, complaints handling and interfacing with regulators.

The Central Compliance Group ('CCG') establishes, enforces and monitors global compliance standards and policies for CS Group. CCG is an independent function and works with Regional General Counsels, Regional Chief Compliance Officers, ACG, CLG and Litigation and Regulatory Affairs divisions across the CS group to drive consistency and effectiveness of compliance policies. Additionally, CCG aims to ensure that the vision and strategy are appropriately aligned with CSUK compliance standards. CCG 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.

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

## Notes to the Financial Statements for the Year ended 31 December 2014

### Risk limits

A sound system of risk limits is fundamental to effective risk management. The limits define CS group'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 tolerances 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 two sources:

- Structural interest rate and structural FX risk arise primarily from the loan and deposit books (the core value proposition and service offering). CSUK will avoid carrying material open interest or FX rate positions; and
- Foreign exchange (FX) risk arising from trades undertaken 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.

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 is undertaken.

#### ii. Liquidity Risk

Liquidity risk is the risk that a company is unable to fund assets and meet obligations as they fall due under both normal and stressed market conditions.

#### CS group-wide Management of Liquidity Risk

Liquidity, as with funding, capital and foreign exchange exposures, is centrally managed by Treasury. Oversight of these activities is provided by the Capital Allocation and Risk Management Committee ('CARMC'), a committee that includes the Chief Executive Officers ('CEOs') of the Group and the divisions, the Chief Financial Officer ('CFO'), the Chief Risk Officer ('CRO') and the Treasurer.

The liquidity and funding strategy is approved by CARMC with ultimate responsibility residing with the Board of Directors. The implementation and execution of the funding and liquidity strategy is managed by Treasury for adherence to the funding policy and the efficient coordination of the secured funding desks. The liquidity and funding profile is regularly reported to CARMC and the Board of Directors, who define the Bank's risk tolerance and set parameters for the balance sheet usage of business.

The liquidity and funding profile of Credit Suisse AG ('CS') reflects the risk appetite, business activities, strategy, the markets and overall operating environment. CS liquidity and funding policy is designed to ensure that funding is available to meet all obligations in times of stress, whether caused by market events and / or issues specific to CS. This approach enhances CS' ability to manage potential liquidity and funding risks and to promptly adjust the liquidity and funding levels to meet any stress situation.

**Notes to the Financial Statements for the Year ended 31 December 2014**

The funding sourced by CS is part of a conservative Asset-Liability Management ('ALM') strategy aimed at maintaining a funding structure with long term stable funding sources being well 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 measure used to monitor the structural liquidity position of the firm and as the basis for funds transfer pricing is Net Stable Funding Ratio ('NSFR'). This is complemented by CS's internal liquidity barometer (the 'Barometer'), which allows CS to manage the 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 liquidity coverage ratio ('LCR') and a net stable funding ratio ('NSFR'). The BCBS has stated that it will review the effect of these liquidity standards on financial markets, credit extension and economic growth to address unintended consequences.

The LCR, which will be phased in beginning 1 January 2015 through 1 January 2019, following an observation period which began in 2011, 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 minimum requirement of 60%, which will increase by 10% for four years, reaching 100% by 1 January 2019.

The NSFR, which is expected to be introduced on 1 January 2018 following an observation period which began in 2012, 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 and should always be at least 100%.

**Legal Entity Management of Liquidity Risk**

The liquidity risk of the Bank is managed as an integral part of the overall CS 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 liquidity adequacy analysis tool used to manage liquidity for the Bank is the Barometer. The legal entity internal liquidity risk management framework incorporates local regulatory compliance requirements. 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.

Following global regulatory developments, the European Banking Authority ('EBA') has published its version of the LCR as part of the implementation guidance for Basel III. In line with guidelines published by BCBS, the LCR will be subject to an initial minimum requirement of 60% on January 1, 2015 with full compliance by January 1, 2018 (one year prior to BCBS guidelines). The NSFR is expected to be introduced on January 1, 2018. The Bank has established an internal risk appetite for the LCR and is expected to introduce one for the NSFR during 2015.

**Notes to the Financial Statements for the Year ended 31 December 2014**

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

- Board approved legal entity risk tolerance;
- Compliance with local regulatory requirements;
- Funding of illiquid assets on a term basis;
- Holding a liquid asset portfolio composed of highly liquid unencumbered assets;
- 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 reviewed by Treasury and approved by the 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.

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

<b>As at 31 December 2014</b>	<b>On demand</b>	<b>Due within 3 month</b>	<b>Due between 3 and 12 months</b>	<b>Due between 1 and 5 years</b>	<b>Due after 5 years</b>	<b>Total</b>
	<b>£'000</b>	<b>£'000</b>	<b>£'000</b>	<b>£'000</b>	<b>£'000</b>	<b>£'000</b>
Deposits	1,099,185	737,190	271,100	78,648	-	2,186,123
Trading financial liabilities at fair value through profit or loss	20,638	-	-	-	-	20,638
Other liabilities	28,700	63	116	1,457	63	30,399
Provisions	14,777	-	-	-	-	14,777
Long term debt	-	229	687	3,663	35,073	39,652
<b>Total Liabilities</b>	<b>1,163,300</b>	<b>737,482</b>	<b>271,903</b>	<b>83,768</b>	<b>35,136</b>	<b>2,291,589</b>

<b>As at 31 December 2013</b>	<b>On demand</b>	<b>Due within 3 month</b>	<b>Due between 3 and 12 months</b>	<b>Due between 1 and 5 years</b>	<b>Due after 5 years</b>	<b>Total</b>
	<b>£'000</b>	<b>£'000</b>	<b>£'000</b>	<b>£'000</b>	<b>£'000</b>	<b>£'000</b>
Deposits	946,614	775,083	99,038	82,705	-	1,903,440
Trading financial liabilities at fair value through profit or loss	8,340	-	-	-	-	8,340
Other liabilities	34,329	14	116	1,124	-	35,583
Provisions	3,498	-	-	-	-	3,498
Long term debt	-	226	678	3,618	35,853	40,375
<b>Total Liabilities</b>	<b>992,781</b>	<b>775,323</b>	<b>99,832</b>	<b>87,447</b>	<b>35,583</b>	<b>1,991,236</b>

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 2014**
**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 foreign currency exchange rate risk at 31 December 2014 and 2013.

As at 31 December	2014			2013		
	Assets	Liabilities	Net	Assets	Liabilities	Net
	£'000	£'000	£'000	£'000	£'000	£'000
Australian dollar	3,296	(3,294)	2	3,545	(3,544)	1
Canadian dollar	3,440	(3,438)	2	2,355	(2,349)	6
Danish krone	29	(21)	8	18	(17)	1
Euro	291,570	(291,485)	85	263,660	(263,300)	360
Hong Kong dollar	1,579	(1,578)	1	2,212	(2,207)	5
Hungarian forint	-	(1)	(1)	1	(1)	-
Icelandic krona	126	(126)	-	118	(118)	-
Israel new shekel	1,056	(646)	410	1,336	(1,069)	267
Japanese yen	15,027	(15,163)	(136)	7,846	(7,848)	(2)
New Zealand dollar	291	(291)	-	6	(6)	-
Norwegian krone	4,606	(4,614)	(8)	3,565	(3,624)	(59)
Poland zlotych	1,826	(1,938)	(112)	1,848	(1,988)	(140)
Singapore dollar	3,618	(3,617)	1	2,270	(2,270)	-
South African rand	712	(712)	-	773	(772)	1
Swedish krona	5,587	(5,571)	16	5,275	(5,255)	20
Swiss franc	27,918	(28,296)	(378)	48,383	(49,608)	(1,225)
Turkish lira	82	(77)	5	101	(99)	2
UAE dirham	7	(25)	(18)	-	-	-
US dollar	609,176	(610,368)	(1,192)	569,341	(570,672)	(1,331)

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**

Credit Risk Management ('CRM') is an independent function headed by the Chief Credit Officer ('CCO') 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. CRM reports to the Chief Risk Officer of CS group.

**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,

## **Notes to the Financial Statements for the Year ended 31 December 2014**

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.

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 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.

These credit risk estimations are used consistently for the purposes of business and credit portfolio steering, credit policy, approval and monitoring, management reporting, risk-adjusted performance measurement, economic risk capital measurement and allocation and certain financial accounting purposes. The overall internal credit rating system has been approved by the FINMA for application under the Basel II A-IRB approach. This approach also allows us to price transactions involving credit risk more accurately, based on risk/return estimates.

### **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 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.

## **Notes to the Financial Statements for the Year ended 31 December 2014**

In addition, credit risk is regularly supervised by credit and risk management committees taking current market conditions and trend analysis into consideration. CS group regularly analyses industry 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') regularly determines the adequacy of allowances, taking into consideration whether the levels are sufficient for credit losses and whether allowances can be released or if they should be increased.

### **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.

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 3-yearly basis, however the Bank does have the right to re-value annually, if required. Financial collateral received (in respect of Lombard 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 and retail units); and
- Financial collateral pledged against loans collateralised by securities (mostly cash and marketable securities), and bank guarantees from other CS offices.

## Notes to the Financial Statements for the Year ended 31 December 2014

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 29 - Guarantees and commitments.

For further information on collateral held as security that the Bank is permitted to sell or repledge, refer to Note 31 - 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 2014. 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 2014**
**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.

<b>Maximum exposure to Credit Risk</b>	<b>2014</b>			<b>2013</b>		
	<b>Gross</b>	<b>Collateral</b>	<b>Net</b>	<b>Gross</b>	<b>Collateral</b>	<b>Net</b>
<b>As at 31 December</b>	<b>£'000</b>	<b>£'000</b>	<b>£'000</b>	<b>£'000</b>	<b>£'000</b>	<b>£'000</b>
Cash and due from Banks	26,306	-	26,306	42,898	-	42,898
Interest-bearing deposits with Banks	55,270	-	55,270	82,272	-	82,272
Securities purchased under resale agreements	974,128	974,128	-	782,578	782,578	-
Trading financial assets at fair value through profit or loss	21,183	5,867	15,316	9,138	1,513	7,625
Financial assets available for sale	3,265	-	3,265	3,131	-	3,131
Other loans and receivables	1,340,992	1,327,684	13,308	1,160,872	1,158,403	2,469
Other assets	19,685	-	19,685	12,657	-	12,657
Off balance sheet items						
Financial guarantees	24,048	24,048	-	26,733	26,733	-
Loan commitments and other credit related commitments	69,033	69,033	-	17,700	17,700	-
<b>Total</b>	<b>2,533,910</b>	<b>2,400,760</b>	<b>133,150</b>	<b>2,137,979</b>	<b>1,986,927</b>	<b>151,052</b>

**Notes to the Financial Statements for the Year ended 31 December 2014**

The following table represents counterparty exposure before collateral by rating

	Neither past due nor impaired							Deferred fees and cost	Total
	AAA	AA+ to AA-	A+ to A-	BBB+ to BBB-	BB+ to BB-	B+ and Below	Impaired		
<b>As at 31 December 2014</b>	<b>£'000</b>	<b>£'000</b>	<b>£'000</b>	<b>£'000</b>	<b>£'000</b>	<b>£'000</b>	<b>£'000</b>	<b>£'000</b>	<b>£'000</b>
Loans	402	972	32,044	696,532	607,581	11,736	(2,006)	(6,269)	1,340,992
Derivatives instruments	-	-	-	9,103	1,122	10,958	-	-	21,183
<b>Total</b>	<b>402</b>	<b>972</b>	<b>32,044</b>	<b>705,635</b>	<b>608,703</b>	<b>22,694</b>	<b>(2,006)</b>	<b>(6,269)</b>	<b>1,362,175</b>
<b>Off-balance sheet items</b>	-	-	-	-	-	-	-	-	-
Loan commitments	-	-	6,605	28,765	33,663	-	-	-	69,033
Credit guarantees and similar instruments	-	-	2,343	21,180	525	-	-	-	24,048
<b>Total-Off balance sheet</b>	-	-	<b>8,948</b>	<b>49,945</b>	<b>34,188</b>	-	-	-	<b>93,081</b>
<b>As at 31 December 2013</b>									
Loans	392	337	20,570	470,540	674,173	977	(1,550)	(4,567)	1,160,872
Derivatives instruments	-	-	-	2,272	21	6,497	-	-	8,790
<b>Total</b>	<b>392</b>	<b>337</b>	<b>20,570</b>	<b>472,812</b>	<b>674,194</b>	<b>7,474</b>	<b>(1,550)</b>	<b>(4,567)</b>	<b>1,169,662</b>
<b>Off-balance sheet items</b>	-	-	-	-	-	-	-	-	-
Loan commitments	-	-	-	11,345	6,355	-	-	-	17,700
Credit guarantees and similar instruments	-	-	2,502	4,312	19,919	-	-	-	26,733
<b>Total-Off balance sheet</b>	-	-	<b>2,502</b>	<b>15,657</b>	<b>26,274</b>	-	-	-	<b>44,433</b>

**Notes to the Financial Statements for the Year ended 31 December 2014**

Included in the table below are the Bank's 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.

<b>As at 31 December 2014</b>	<b>On demand</b>	<b>Due within 3 months</b>	<b>Due between 3 and 12 months</b>	<b>Due between 1 and 5 years</b>	<b>Due after 5 years</b>	<b>Non-interest bearing</b>	<b>Deferred fees and costs</b>	<b>Allowance for impairment</b>	<b>Total</b>
	<b>£'000</b>	<b>£'000</b>	<b>£'000</b>	<b>£'000</b>	<b>£'000</b>	<b>£'000</b>	<b>£'000</b>	<b>£'000</b>	<b>£'000</b>
<b>Assets</b>									
Cash and due from banks	26,306	-	-	-	-	-	-	-	26,306
Interest-bearing deposits with banks	11,825	35,445	8,000	-	-	-	-	-	55,270
Securities purchased under resale agreements	974,128	-	-	-	-	-	-	-	974,128
Trading financial assets at fair value through profit or loss	21,183	-	-	-	-	-	-	-	21,183
Financial assets available for sale	-	-	-	-	-	3,265	-	-	3,265
Other loans and receivables	99,158	248,730	101,399	888,733	11,247	-	(6,269)	(2,006)	1,340,992
Other assets	-	-	-	-	-	19,685	-	-	19,685
<b>Total assets exposed</b>	<b>1,132,600</b>	<b>284,175</b>	<b>109,399</b>	<b>888,733</b>	<b>11,247</b>	<b>22,950</b>	<b>(6,269)</b>	<b>(2,006)</b>	<b>2,440,829</b>
<b>As at 31 December 2013</b>	<b>On demand</b>	<b>Due within 3 months</b>	<b>Due between 3 and 12 months</b>	<b>Due between 1 and 5 years</b>	<b>Due after 5 years</b>	<b>Non-interest bearing</b>	<b>Deferred fees and costs</b>	<b>Allowance for impairment</b>	<b>Total</b>
	<b>£'000</b>	<b>£'000</b>	<b>£'000</b>	<b>£'000</b>	<b>£'000</b>	<b>£'000</b>	<b>£'000</b>	<b>£'000</b>	<b>£'000</b>
<b>Assets</b>									
Cash and due from banks	42,898	-	-	-	-	-	-	-	42,898
Interest-bearing deposits with banks	50,758	6,863	24,651	-	-	-	-	-	82,272
Securities purchased under resale agreements	782,578	-	-	-	-	-	-	-	782,578
Trading financial assets at fair value through profit or loss	9,138	-	-	-	-	-	-	-	9,138
Financial assets available for sale	-	-	-	-	-	3,131	-	-	3,131
Other loans and receivables	93,956	233,532	44,480	784,946	10,075	-	(4,567)	(1,550)	1,160,872
Other assets	-	-	-	-	-	12,657	-	-	12,657
<b>Total assets exposed</b>	<b>979,328</b>	<b>240,395</b>	<b>69,131</b>	<b>784,946</b>	<b>10,075</b>	<b>15,788</b>	<b>(4,567)</b>	<b>(1,550)</b>	<b>2,093,546</b>

**Notes to the Financial Statements for the Year ended 31 December 2014****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 Lombard. However, for real estate facilities, country risk is the location of the Bank property collateral, i.e. UK. Furthermore, for Lombard loans, CS Group policy states: "Lombard credit loans are treated in the same way as reverse repos. Collateral received against the loan is shocked 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 Lombard loan will be included in the country exposure.

**vi. Legal and Regulatory risk**

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

The CS group 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. In addition, the CS group is an active participant in International Swaps and Derivatives Association ('ISDA') and other professional derivative market forums, with specific focus on improving levels of derivative market and product standardisation, legal definition and protocol.

The CS group 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 and restrictions on some of the CS group's business activities or other sanctions.

**vii. Operational risk**

Operational risk is the risk of loss resulting from inadequate or failed internal processes, people or systems or from external events inclusive of legal risk. 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 gain, 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 also 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 Company 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 2014

In 2013, the CS group introduced an Operational Risk Framework providing a systematic approach to risk management. 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 tolerance levels set for the Bank, which set out senior management's expectations with respect to losses/ gains and metrics – breaches of tolerance 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 our 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 – they may be associated with tolerance 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, and they evaluate the strength of mitigating controls 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 that 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 behaviors incorporate the lessons learned from incidents at Credit Suisse, peer firms and other industries.

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 and to ensure that the links between individual components work effectively and to embed the framework within day-to-day business risk management.

In 2014, key enhancements included the introduction and roll out of a standardised operational risk register to ensure that risks are categorised and reported consistently, enhancements to the RCSA process to improve assessment quality and increase output transparency, and the introduction of more granular operational risk tolerance levels for certain businesses.

2015 priorities include an extension of formal control testing, introducing a new system to integrate operational risk data in a single place, enhancing the role of Operational Risk Management ('ORM') in strategic change programs and further embedding operational risk considerations in day-to-day business activities making operational risk management an integral part of daily decision making.

**Notes to the Financial Statements for the Year ended 31 December 2014****viii. 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.

**ix. 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.

**Notes to the Financial Statements for the Year ended 31 December 2014****33. 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 2014

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 2014			31 December 2013		
	Gross	Offsetting	Net	Gross	Offsetting	Net
Derivative assets	£'000	£'000	£'000	£'000	£'000	£'000
Derivative instruments subject to enforceable master netting agreements	11,091	-	11,091	6,530	-	6,530
Derivative instruments not subject to enforceable master netting agreements <sup>1</sup>	10,092	-	10,092	2,260	-	2,260
<b>Total derivative instruments presented in the Statement of Financial Position</b>	<b>21,183</b>	<b>-</b>	<b>21,183</b>	<b>8,790</b>	<b>-</b>	<b>8,790</b>
of which recorded in trading financial assets at fair value through profit or loss	21,183	-	21,183	8,790	-	8,790
<b>Derivative liabilities</b>						
Derivative instruments subject to enforceable master netting agreements	10,064	-	10,064	2,222	-	2,222
Derivative instruments not subject to enforceable master netting agreements <sup>1</sup>	10,574	-	10,574	6,118	-	6,118
<b>Total derivative instruments presented in the Statement of Financial Position</b>	<b>20,638</b>	<b>-</b>	<b>20,638</b>	<b>8,340</b>	<b>-</b>	<b>8,340</b>
of which recorded in trading financial liabilities at fair value through profit or loss	20,638	-	20,638	8,340	-	8,340

<sup>1</sup> 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 2014

### 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, 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 2014			31 December 2013		
	Gross	Offsetting	Net	Gross	Offsetting	Net
	£'000	£'000	£'000	£'000	£'000	£'000
Securities purchased under resale agreements <sup>1</sup>	974,128	-	974,128	782,578	-	782,578
<b>Total subject to enforceable master netting agreements</b>	<b>974,128</b>	<b>-</b>	<b>974,128</b>	<b>782,578</b>	<b>-</b>	<b>782,578</b>
<b>Total</b>	<b>974,128</b>	<b>-</b>	<b>974,128</b>	<b>782,578</b>	<b>-</b>	<b>782,578</b>

<sup>1</sup> None of the above amount is held at fair value.

## Notes to the Financial Statements for the Year ended 31 December 2014

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 2014				31 December 2013			
Financial assets subject to enforceable master netting agreements	Net <sup>1</sup>	Financial instruments <sup>2</sup>	Cash collateral received/pledged <sup>2</sup>	Net exposure	Net <sup>1</sup>	Financial instruments <sup>2</sup>	Cash collateral received/pledged <sup>2</sup>	Net
	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000
Derivative instruments	11,091	-	-	11,091	6,530	-	-	6,530
Securities purchased under resale agreements	974,128	(974,128)	-	-	782,578	(782,578)	-	-
<b>Total financial assets subject to enforceable master netting agreements</b>	<b>985,219</b>	<b>(974,128)</b>	<b>-</b>	<b>11,091</b>	<b>789,108</b>	<b>(782,578)</b>	<b>-</b>	<b>6,530</b>
Financial liabilities subject to enforceable master netting agreements								
Derivative instruments	10,064	-	-	10,064	2,222	-	-	2,222
<b>Total financial liabilities enforceable subject to master netting agreements</b>	<b>10,064</b>	<b>-</b>	<b>-</b>	<b>10,064</b>	<b>2,222</b>	<b>-</b>	<b>-</b>	<b>2,222</b>

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

<sup>2</sup> 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 2014**

### **34. Business Combination**

On 27 March 2013, the Bank together with other CS group entities signed an agreement to acquire Morgan Stanley's private wealth management business, being client relationships, relationship managers and support staff as appropriate, in the United Kingdom. The acquisition enhances the Bank's position in the HNW and UHNW market and offers potential to grow Assets under Management ('AuM') and related revenue streams through the Bank's existing product offering and by capitalising on the CS group's One Bank Model.

The business acquisition commenced on 2 December 2013 and occurred in 'tranches' and was completed on 2 June 2014. No measurement period adjustments have been made in this reporting period. A total purchase price of £29.6m was paid over a number of tranches, which resulted in the recognition of Intangibles of £15.8m and Goodwill of £13.8m. The Bank additionally incurred £5.9m (2013:£11.9m) integration costs related to this acquisition. The revenues for the year relating to this acquisition were £8.2m, and the loss for the year was £4m. If the acquired AuM had been with the Bank for the full 12 months, the revenues have been projected for the Bank at £89m, and profit at £3m.

Goodwill represents the residual value of purchase price over the identifiable intangible assets and included the assembled workforce which moved over to the Bank. Intangible assets consist of client relationships which have moved over to the Bank. The acquisition of these client relationships has generated increased revenues in 2014. The intangibles have been valued considering the present values of expected cash flows from the synergies from this acquisition. The AuM, relationship managers and clients transferred from the acquisition have been fully integrated with the existing business of the Bank.

### **35. 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 2014 the Bank received a CET1 capital injection of £77m and converted all participating share capital to ordinary shares. In 2013, Upper Tier 2 subordinated debt for £50m was early redeemed at fair value resulting in a loss of £2.7m. The total amount (£52.7m) paid to the debt issuer was in turn funded back to the Bank as share capital of Participating non-voting shares (refer Note 24 - Share Capital and Share Premium).

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% and a Tier 1 ratio of 5.5% in 2014 (CET1 ratio of 4.5% and a Tier1 ratio of 6% in 2015). 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.

**Notes to the Financial Statements for the Year ended 31 December 2014**

The following table sets out details of the Bank's own funds at 31 December 2014 and 2013:

	<b>2014</b>	<b>2013</b>
	<b>£'000</b>	<b>£'000</b>
<b>Own Funds</b>		
Total shareholders' equity	196,629	126,699
Regulatory deductions and adjustments:		
Gain on AFS equities	(3,193)	(3,059)
Intangible assets and Goodwill	(27,310)	(2,980)
<b>Total Tier 1 (and CET1) capital</b>	<b>166,126</b>	<b>120,660</b>
<b>Tier 2 capital</b>		
Subordinated debt	25,000	25,000
Gain on AFS equities	-	3,059
<b>Total Tier 2 capital</b>	<b>25,000</b>	<b>28,059</b>
<b>Own Funds</b>	<b>191,126</b>	<b>148,719</b>

Gains on available for sale ('AFS') equities are derecognised under CRDIV but were recognised in Tier 2 capital under Basel II.

**36. PRA Pillar 3 Disclosure**

Pillar 3 disclosures required under CRR can be found separately at [www.credit-suisse.com](http://www.credit-suisse.com).

**37. Country-by-Country Reporting**

The information relating to Country-by-Country reporting, required by Article 89 of Directive 2013/36/EU ('Capital Requirements Directive'), will be published at [www.credit-suisse.com](http://www.credit-suisse.com) on or before 31 December 2015.

**38. 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.

**39. Subsequent Events**

In the UK budget announcement of 18 March 2015, the UK government announced its intention to increase the UK Bank Levy rate from 0.156% to 0.21% for short term liabilities and 0.78% to 0.105% for long term liabilities with effect from 1 April 2015. This rate increase has now been enacted but is not expected to have a material impact on the 2015 results of the Company.

In the 2014 Autumn Statement, the UK Chancellor of the Exchequer announced proposals to restrict the use of losses carried forward by UK banks to a maximum of 50% of profits in periods from April 2015 onwards. This UK tax law change has now been enacted but is not expected to have a material impact on the recoverability of the net deferred tax asset.

On 26 March 2015, £100m subordinated debt facility agreement with Credit Suisse PSL GmbH was terminated.