

Annual Report 2018



Credit Suisse Securities (Europe) Limited

Annual Report 2018

Board of Directors as at 28 March 2019

Noreen Doyle (Chair and Independent Non-Executive)

David Mathers – Chief Executive Officer (CEO)

Alison Halsey (Independent Non-Executive)

Robert Endersby (Independent Non-Executive)

John Devine (Independent Non-Executive)

Andreas Gottschling (Non-Executive)

Caroline Waddington – Chief Financial Officer (CFO)

Christopher Horne (Deputy CEO)

Paul Ingram – Chief Risk Officer (CRO)

Jonathan Moore

Michael Dilorio

Nicola Kane

Company Secretary

Paul Hare

Company Registration Number

00891554



Noreen Doyle

Irish and US Citizen

Non-Executive

Board member since 2011

Chair of the Board



David Mathers

British Citizen

Board member since 2016

Chief Executive Officer

Professional history

2011–present	Credit Suisse International Credit Suisse Securities (Europe) Limited Chair of the Board of Directors (2012–present) Non-Executive Director (2011–present) Chair of the Advisory Remuneration Committee (2015–present) Chair of the Nomination Committee (2014–present) Member of the Risk Committee (2013–present) Member of the Audit Committee (2011–2017) Chair of the Risk Committee (2016) Chair of the Audit Committee (2011–2012)
2004–2017	Credit Suisse AG & Credit Suisse Group AG Member of the Board of Directors (2004–2017) Vice-Chair and Lead Independent Director of the Board of Directors (2014–2017) Member of the Governance and Nominations Committee (2014–2017) Member of the Risk Committee (2004–2007; 2009–2014; 2016–2017) Member of the Audit Committee (2007–2009; 2014–2016)
1992–2005	European Bank for Reconstruction (EBRD) First vice president and head of banking (2001–2005) Deputy vice president finance and director of risk management (1997–2001) Chief credit officer and director of syndications (1994–1997) Head of syndications (1992–1994)
Prior to 1992	Bankers Trust Company, New York and London Managing director, European Structured Sales (1990–1992) Various positions at management level

Education

1974	MBA in Finance, Tuck at Dartmouth College, New Hampshire
1971	BA in Mathematics, The College of Mount Saint Vincent, New York

Other activities and functions

Newmont Mining Corporation, Chair of the Board of Directors, Chair of the Corporate Governance & Nominating Committee and the Executive Finance Committee, Member of the Safety & Sustainability Committee
St Mary's University, Twickenham, London, Member of the Board of Governors
Sarita Kenedy East Foundation, Trustee

Professional history

1998–present	Credit Suisse International Credit Suisse Securities (Europe) Limited Executive Director (2016–present; 2005–2006) CEO (2016–present) Alternate Director of the Board of Directors (2005)
1998–present	Credit Suisse AG & Credit Suisse Group AG Chair of Strategic Resolution Oversight Board (2015–present) Member of the Executive Board (2010–present) Chief Financial Officer (2010–present) Head of IT and Operations (2012–2015) Head of Finance and COO of Investment Banking (2007–2010) Senior positions in Credit Suisse's Equity business, including Director of European Research and Co-Head of European Equities (1998–2007)
Prior to 1998	HSBC Global head of equity research (1997–1998) Research analyst, HSBC James Capel (1987–1997)

Education

1991	Associate Certification, Society of Investment Analysts
1991	MA in Natural Sciences, University of Cambridge, England
1987	BA in Natural Sciences, University of Cambridge, England

Other activities and functions

European CFO Network, member
Academic awards and grants at Robinson College, Cambridge, Sponsor



Alison Halsey

British Citizen

Non-Executive

Board member since 2015

Professional history

2015–present	Credit Suisse International Credit Suisse Securities (Europe) Limited
	Member of the Advisory Remuneration Committee (2018–present)
	Non-Executive Director (2015–present)
	Chair of the Audit Committee (2015–present)
	Member of the Risk Committee (2015–present)
	Member of the Nomination Committee (2015–present)
	Chair of the Conflicts Committee (2017–present)
	Co-Chair of the Conflicts Committee (2016–2017)
	Member of the Advisory Remuneration Committee (2015–2017)
2011–present	Super Duper Family LLP Managing Partner
1977–2011	KPMG
	Global Lead Partner (2002–2011)
	UK Head of Financial Services (2001–2004)
	Audit Partner, Financial Services (1991–2001)
	Secondment, Assistant Commissioner, Building Societies Commission (1989–1991)
	Senior Manager, Specialist Banking Department (1986–1989)

Education

1980	ACA (FCA 1990), Institute of Chartered Accountants in England and Wales
1977	BA in French, King's College, London

Other activities and functions

Aon UK Limited, Non-Executive Director, Member of the Risk & Compliance and Nominations Committees and Chair of the Audit Committee



Robert Endersby

British Citizen

Non-Executive

Board member since 2016

Professional history

2016–present	Credit Suisse International Credit Suisse Securities (Europe) Limited
	Non-Executive Director (2016–present)
	Chair of the Risk Committee (2016–present)
	Member of the Audit Committee (2016–present)
	Member of the Advisory Remuneration Committee (2016–present)
	Member of the Conflicts Committee (2017–present)
	Co-Chair of the Conflicts Committee (2016–2017)
	Member of the Nomination Committee (2016–2017)
2012–2014	Danske Bank Group / Danske Bank A/S
	Chief Risk Officer & Member of Executive Board
	Chair of Executive Risk Committee
	Chair of Group Liquidity Risk Committee
2011–2012	Royal Bank of Scotland plc
	Chief Operating Officer, Group Credit Risk
2006–2010	Barclays Bank plc
	Commercial Credit Risk Director, Global Retail & Commercial Banking

Education

1982	BA in Social Science (Economics), University of the West of England
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Other activities and functions

Tesco Personal Finance Group Plc and Tesco Personal Finance Plc, Non-Executive Director, Chair of Risk Committee, Member of Audit Committee, Remuneration Committee and Disclosure Committee



John Devine

British Citizen

Non-Executive

Board member since 2017



Andreas Gottschling

German Citizen

Non-Executive

Board member since 2018

Professional history

2017–present	Credit Suisse International Credit Suisse Securities (Europe) Limited Non-Executive Director (2017-present) Member of the Audit Committee (2017-present) Member of the Nomination Committee (2017-present) Member of the Conflicts Committee (2017-present)
2008-2010	Threadneedle Asset Management Chief Operating Officer
1988-2008	Merrill Lynch and Co. SVP Head of Global Operations and Technology (2005-2008) MD and FVP Global CFO Global Markets and Investment Banking (2001-2005) CFO International, London (1999-2001) FVP, CFO Global Operations and Technology, New York (1998-1999) CFO Global Fixed Income and Derivatives, London (1997-1998) Director, CFO Asia Pacific Region, Hong Kong (1992-1997) Various other senior positions (1988-1992)
1987-1988	Prudential Bache Securities Head of Computer and Derivatives Audit
1986-1987	Manufacturers Hanover Trust Senior Auditor, Derivatives and FX

Education

1981	BA, Geography, Preston Polytechnic
1996	CIPFA, Chartered Institute of Public Finance & Accountancy

Other activities and functions

Standard Life Aberdeen PLC, Non-Executive Director, Chair of Audit Committee, Member of Risk Committee and Remuneration Committee
Citco Custody (UK) Ltd and Citco Custody Holding Ltd Malta, Non-Executive Director, Chair of Audit Committee, Member of Risk Committee and Nominations Committee

Professional history

2018–present	Credit Suisse International Credit Suisse Securities (Europe) Limited Non-Executive Director (2018-present) Member of the Risk Committee (2018-present) Member of the Advisory Remuneration Committee (2018-present)
2017-present	Credit Suisse AG & Credit Suisse Group AG (2017-present) Non-Executive Director (2017-present) Chair of the Risk Committee (2018-present) Member of the Audit Committee (2018-present) Member of the Governance and Nominations Committee (2018-present) Member of the Risk Committee (2017-2018)
2013-2016	Erste Group Bank, Austria Chief Risk Officer and Member of the Management Board
2012-2013	McKinsey and Company, Switzerland Senior Advisor, Risk Practice
2005-2012	Deutsche Bank, London and Frankfurt Member of the Risk Executive Committee & Divisional Board (2005-2012) Global Head Operational Risk (2006-2010)
2003-2005	LGT Capital Management, Switzerland Head of Quant Research
2000-2003	Euroquants, Germany Consultant
2000-2000	Washington State University, Pullman, USA Faculty Member, Department of Finance, Business School
1997-2000	Deutsche Bank, Frankfurt Head of Quantitative Analysis

Education

1997	PhD MA Economics, University of California, San Diego, USA
1991	Postgraduate Studies in Physics, Mathematics and Economics, Harvard University, Cambridge, USA
1990	Intermediate Diploma in Mathematics and Economics, University of Freiburg, Germany
1986	International Baccalaureate, United World College of the Atlantic, Wales, UK

**Caroline Waddington**

British Citizen

Board member since 2017**Chief Financial Officer****Professional history**

2017–present	Credit Suisse International Credit Suisse Securities (Europe) Limited Credit Suisse EMEA Foundation, Trustee (2018–present) Executive Director (2017–present) CFO for UK Regulated Entities, Chair of the UK Pension Committee (2017–present) Member of the Board of Directors of Credit Suisse Investments (UK) and Credit Suisse Investment Holdings (UK) (2017–present) Member of the Management Committee of Credit Suisse AG, London Branch (2017–present)
2013–2016	Deutsche Bank, London Global Co-Head of Markets and Non Core Product Control (2014–2016) Global Head of Markets and Non Core Risk and P&L (2013–2014)
2008–2012	Royal Bank of Scotland, London Global Head of Markets Business Unit Control (2009–2012) Global Head of Rates, Local Markets, Currencies and Commodities Business Unit Control (2008–2009)
2004–2008	Barclays Capital, London Global Head of Equity Linked and Prime Services Product Control and Head of Price Testing and Provisioning Group (2006–2008) Global Head of Fixed Income Product Control (2004–2006)
1994–2004	Credit Suisse, London Programme Manager for the Prime Services Equity Swaps Programme (2003–2004) Global Head of Line Control and Management Information, OTC Derivatives Support Group, Operations (2002–2003) Product Control (1994–2002)
1990–1994	Coopers & Lybrand, London Auditor

Education

1994	ACA, Institute of Chartered Accountants in England and Wales
1990	BSc Cellular and Molecular Pathology (Hons), Bristol University

Other activities and functions

NameCo (No.357) Limited, Director
Roffey Park Institute Limited, Director, Member of Audit and Risk Committee
Brook House (Clapham Common) Management Company Limited, Director

**Christopher Horne**

British Citizen

Board member since 2015**Deputy Chief Executive Officer****Professional history**

1997–present	Credit Suisse International Credit Suisse Securities (Europe) Limited Executive Director (2015–present; 2010–2011) Chair of the CSI Disclosure Committee (2015–present) Alternate Director of the Board of Directors (2008) Deputy CEO (2015–present) Branch Manager and Chair of the Management Committee of Credit Suisse AG, London Branch (2015–present) Member of the Board of Directors of Credit Suisse Investments (UK) and Credit Suisse Investment Holdings (UK) (2014–present) Deputy Head of the European Investment Banking Department (2014–2015) Global COO of the Investment Banking Department (2009–2014) Member of the Supervisory Board of Credit Suisse (Poland) Sp. z o.o. (2010–2013) Member of the Management Committee of Credit Suisse AG, London Branch (2010–2011) COO of the European Investment Banking Department (2005–2008) Managing Director, Global Mergers and Acquisitions Group (2004–2005) Co-head of Corporate Advisory & Finance within Global Industrial & Services in Europe (2001–2004) Managing Director, European Mergers & Acquisitions Department and European Corporate Advisory & Finance team (1997–2000)
1990–1997	BZW, London Investment Banker
1986–1990	Deloitte Haskins & Sells, London Auditor

Education

1989	ACA, Institute of Chartered Accountants in England and Wales
1986	BSc Honours, Chemistry, Durham University

Other activities and functions

UK Finance, Capital Markets and Wholesale Products and Services Board, Member



Paul Ingram

British Citizen

Board member since 2015

Chief Risk Officer



Jonathan Moore

British Citizen

Board member since 2017

Professional history

2013–present	Credit Suisse International Credit Suisse Securities (Europe) Limited Executive Director (2015–present) Member of the Management Committee of Credit Suisse AG, London Branch (2013–present) Chief Risk Officer (2013–present)
2009–2013	RBS Group Global Head of Market Risk and Insurance Risk
1994–2008	HSBC Group Global Head of Market Risk and Traded Credit Risk (2001–2008) Head of Finance, Operations & Risk, Asia Pacific (ex Hong Kong), Hong Kong (1998–2001) Country CFO & Branch Manager Midland Bank Japan, Tokyo (1995–1998) Head of Markets Product Control & Risk Projects, New York (1994–1995)
1987–1994	Samuel Montagu & Co Various Markets roles
1985–1987	LittleJohn Fraser Audit & Consultancy

Education

1985	BA Honours Economics, University of Essex
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Professional history

2001–present	Credit Suisse International Credit Suisse Securities (Europe) Limited Executive Director (2017–present) Head of Global Credit Products EMEA & Senior Manager for Credit & Client in UK (2017–present) Co-Head of Global Credit Products in EMEA (2015–2017) Head of Trading for Global Credit Products in EMEA (2009–2015) Global Head of Structured Credit Trading (2008–2009) Investment Grade, Asset Swap & Illiquid Credit Trading (2002–2008) Investment Grade, Credit Research Analyst (2001–2002)
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Education

2000	BSc Mathematics, University of Nottingham
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Other activities and functions

Association for Financial Markets in Europe, Director	
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Michael Dilorio

American Citizen

Board member since 2017

Professional history

2017–present	Credit Suisse International Credit Suisse Securities (Europe) Limited Executive Director (2017–present) EMEA Head for Global Markets Equities (2017–present) Member of Management Committee of Credit Suisse AG, London Branch (2017–present)
2013–2017	Barclays Capital, London Global Head of Equity Sales
2010–2013	Barclays Capital, Hong Kong Asia Pacific Head of Equities (2011–2013) Asia Pacific Head of Equity Trading (2010–2011)
2008–2010	Nomura, Hong Kong Asia Pacific Head of Equity Trading
2007–2008	Lehman Brothers, Hong Kong Asia Pacific Head of Equity Trading
2003–2007	Lehman Brothers, London Head of Flow Equity Derivatives Trading
2000–2003	Nations – CRT, Frankfurt and London Head of Europe
1996–2000	Nations – CRT, Frankfurt Single Stock Derivatives Trading
1995–1995	Barclays de Zoete Wedd (Frankfurt) Equity Derivatives Sales Trading
Education	
1995	BA Economics and Mathematical Sciences, University of North Carolina at Chapel Hill



Nicola Kane

British Citizen

Board member since 2018

Professional history

2014–present	Credit Suisse International Credit Suisse Securities (Europe) Limited Credit Suisse EMEA Foundation, Trustee (2018–present) Executive Director (2018–present) Global Head of Group Operations, Co-head of Operations' Technology and Solutions Delivery (2017–present) Head of Group Operations UK Entities, Wroclaw and Dublin and Global Head of Trade Validation, Asset Protection, Cash and Liquidity Management, Utility Oversight for Cleared Products (2016–2017) Member of the Board of Directors of Buckmore Nominees Limited and Credit Suisse London Nominees Limited (2015–2016) Member of the Board of Directors of Credit Suisse Client Nominees (UK) Limited (2014–2019) Regional Head of Global Operations in EMEA and Global Head of Cross Product Margin, Clearing and Liquidity Management (2014–2016)
1999–2014	Goldman Sachs Global Co-Head of Securities Operations (2009–2014) Regional Head of Asia ex-Japan operations (2008–2009) Margin, Valuations, Product and Pricing (2001–2008) Department Manager for Private Wealth Management, Client Services (1999–2001)
1996–1999	Merrill Lynch Project Manager (1998–1999) Operations Manager, Debt Derivatives Operations (1996–1997)
1994–1996	J.P. Morgan Operations manager
1988–1994	Deloitte and Touche Management Consultancy Various assignments
Education	
1991	ACA, Institute of Chartered Accountants in England and Wales
1988	BSc (Hons) in Business Studies, City University Business School

Other activities and functions

International Association of Securities Services, Board Member

Annual Report for the Year Ended 31 December 2018

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Strategic Report Credit Suisse Securities (Europe) Limited at a glance

Business Model

Entity Structure

The Credit Suisse Securities (Europe) Limited Group (the 'CSS(E)L Group') consists of the Company, its consolidated subsidiaries and structured entities. The CSS(E)L Group is authorised by the Prudential Regulation Authority ('PRA') and regulated by the Financial Conduct Authority ('FCA') and the PRA. Credit Suisse Securities (Europe) Limited ('CSS(E)L' or the 'Company') is a wholly owned subsidiary of Credit Suisse Investment Holdings (UK) (the 'Parent') and indirectly wholly owned subsidiary of Credit Suisse Group AG ('CSG'). The Company has branch operations in Paris, Seoul, Warsaw, Frankfurt and Stockholm. Paris, Warsaw and Stockholm branches provide equity broking and investment banking services. In addition to providing these activities, the Seoul branch has approval from South Korea's Financial Supervisory Commission to engage in over-the-counter ('OTC') derivatives business and is a member of the Korean Securities Dealers Association. The Company also maintains a representative office in Switzerland.

CSG, a company domiciled in Switzerland, is the ultimate parent of a worldwide group of companies (collectively referred to as the 'CS group'). CSG prepares financial statements under US Generally Accepted Accounting Principles ('US GAAP'). These accounts are publicly available and can be found at www.credit-suisse.com.

CSG is a leading wealth manager with strong investment banking capabilities. Founded in 1856, CS group has a global reach today, with operations in over 50 countries and a team of more than 45,000 employees from approximately 150 different nations.

As a leading financial services provider, CS group is committed to delivering its combined financial experience and expertise to corporate, institutional and government clients and high-net-worth individuals worldwide, as well as to retail clients in Switzerland. CS group serves its diverse clients through three focused divisions: Swiss Universal Bank ('SUB'), International Wealth Management ('IWM') and Asia Pacific ('APAC'). These businesses are supported by two divisions specialising in investment banking: Global Markets ('GM') and Investment Banking & Capital Markets ('IBCM'). The Strategic Resolution Unit ('SRU') consolidates the remaining portfolios from the former non-strategic units plus additional businesses and positions that do not fit with CSG's strategic direction.

Financial statements

The CSS(E)L Annual Financial Statements are presented in United States Dollars ('USD'), which is the functional currency of the Company and in accordance with International Financial

Reporting Standards ('IFRS') as adopted by the European Union ('EU'). The Directors present their Annual Strategic Report, Directors' Report and the Annual Financial Statements for the year ended 31 December 2018. The Annual Financial Statements were authorised for issue by the Directors on 28 March 2019.

Strategy

Returning to profitability

CSS(E)L Group is focused on businesses in which the Company has a competitive advantage and is able to operate profitably with an attractive return on capital in the regulatory environment, and therefore will continue to focus resources on opportunities in businesses such as Cash Equities, Prime Services and Global Credit Products.

Clients

CSS(E)L aims to provide its corporate, institutional and IWM clients with a broad range of financial solutions. To meet clients' evolving needs, CSS(E)L serves its clients through an integrated franchise and international presence. CSS(E)L acts as a dealer in securities, derivatives and foreign exchange on a principal and agency basis for its institutional and corporate clients. It delivers integrated client coverage to provide connectivity and access to broader financial markets, differentiated product offerings and tailored financing solutions. In addition, the business includes equities and fixed income sales and trading services, and provides access to a range of debt and equity securities, derivative products and financing opportunities across the capital spectrum for corporate, sovereign and institutional clients.

Growth driven by principal divisions

The CSS(E)L Group has one principal division, GM.

Global Markets

Business Profile

GM provides a broad range of financial products and services to client-driven businesses and also supports the CS group's APAC, IWM and IBCM businesses and their clients. The suite of products and services includes global securities sales, trading and execution, prime brokerage and comprehensive investment research. Clients include financial institutions, corporations, governments and institutional investors as well as pension, hedge funds and IWM clients.

The business structure consists of equity sales and trading, fixed income sales and trading and underwriting. Equity sales and trading includes cash equities, prime services, convertibles and equity derivatives. Fixed income sales and trading is comprised

of yield businesses, including global credit products, securitised products and structured lending, rates, foreign exchange and emerging markets businesses. Underwriting includes leveraged finance, investment grade and equity underwriting businesses.

Business Strategy

Looking ahead, GM continues to focus on the following ambitions: further increasing collaboration across CSG, and increasing operating leverage. With regards to costs and ongoing cost saving initiatives, GM will continue to pursue efficiencies from consolidating redundant platforms and eliminating duplication across functions.

Other divisions

CSS(E)L supports two other divisions:

- **APAC** delivers a range of financial products and services to corporate and institutional clients; and
- **SRU** was created to allow the right-sizing of CS group divisions. Within CSS(E)L Group, the SRU predominantly comprises of the longevity portfolios. The portfolio includes life policies and synthetic life policies of which some of them are long-dated. The primary focus of the SRU was on the wind-down of assets with high capital usage and costs in order to reduce the negative impact on CSG and legal entity performance. Beginning in 2019, the Strategic Resolution Unit has completed its active wind down and ceased to exist as a separate division of the CS group. The residual portfolio as of 31 December, 2018 is managed in an Asset Resolution Unit ('ARU') within the Corporate Centre. The ARU's core mandate has transitioned from accelerated risk reduction to active risk monitoring.

European Union ('EU') Exit Strategy

The United Kingdom is expected to formally withdraw its membership from the EU.

CSS(E)L has prepared for a 'Hard Exit' scenario. On exit CSS(E)L may be required to transfer, subject to certain exceptions, its EU client and EU venue facing businesses to entities in the EU27 as CSS(E)L may not be able to legally transact with EU clients after a UK exit. CS group executed a group-wide plan and has built out trading capabilities in Spain, using an existing company within the CS group.

In the event that these business transfers are necessary, CSS(E)L would transfer its EU client and EU venue facing broker-dealer businesses to Credit Suisse Securities Sociedad de Valores S.A. ('CSSSV'). Under these circumstances, new in scope business would be transacted and booked in CSSSV from the date that the UK leaves the EU and thereafter.

CSS(E)L currently has branches in Stockholm and Paris. These businesses may be transferred to newly set up branches of CSSSV in the Sweden and France respectively.

Operating Environment

Economic environment

CSS(E)L is impacted by a range of political, macroeconomic, regulatory and accounting developments. The operating environment continues to evolve resulting in the need for CSS(E)L to continue evaluating, assessing and adapting its strategy.

The UK EU exit has dominated the news in 2018, with the political uncertainty giving rise to greater volatility. The concerns surrounding the UK's exit from the EU remain. The economic outlook of the UK will depend greatly on the nature of the EU withdrawal.

The Financial Times Stock Exchange 100 ('FTSE 100') bounced from 2-year lows to all-time highs in May, then retraced in the fourth quarter of 2018, closing the year down 12% year on year. 2018 proved to be the worst year for UK equities since 2008.

The Pound ('GBP') was subject to volatility over the year. GBP moved to a pre-EU Referendum high of \$1.42 in April, then fell 10% to \$1.27 (a 20-month low). A significant portion of FTSE 100 constituents benefited from the weaker GBP; however, coupled with the UK EU exit uncertainty.

Throughout 2018, UK wages were rising at their highest rate since 2008, with average wages at their highest since 2011. The strength of wage growth, coupled with low unemployment, prompted the Bank of England to raise interest rates from 0.5% to 0.75% in August, the second rate hike in a decade. Despite strong GDP growth in the third quarter (increase of 0.6%), this masked worrying signs of a loss of momentum in industrial production and services. In the fourth quarter, continued uncertainty regarding the UK EU exit, coupled with a sharp decline in crude oil prices and heightened global macroeconomic worries resulted in significant selling pressure on UK equities.

Although interest rates increased, stocks of GBP non-financial investment-grade corporate bond purchases (financed by the issuance of central bank reserves) and stocks of UK government bond purchases (financed by the issuance of central bank reserves) were maintained at GBP 10 billion and GBP 435 billion, respectively.

Global GDP has fallen despite robust growth in the US which was offset by slowdowns elsewhere. In the United States ('US'), the Federal Reserve increased the rate by 1% to a range of 2.25% and 2.50%. The political environment remains tense. Tensions in international trade have escalated with the US and Chinese governments announcing tariffs to be imposed on steel and aluminium. Since August, the US also proposed further increases on tariffs on Chinese imports. This is coupled with instability in the Eurozone because of political developments within the UK preparing for its exit from the EU. CSS(E)L remains vigilant to these risks and their potential impact.

Accounting and regulatory environment

Accounting

The CSS(E)L Group adopted IFRS 9 Financial Instruments and IFRS 15 Revenue from Contracts with Customers accounting standards on 1 January 2018. CSS(E)L Group has adopted IFRS 16 Leases on 1 January 2019.

→ For further details, refer to Note 2 – Significant Accounting Policies.

Recovery and Resolution Planning

CSS(E)L has developed capabilities in line with the regulatory Operational Continuity in Resolution ('OCIR') requirements, as set out in the Operational Continuity part of the PRA Rulebook, Policy Statement 21/26 and Supervisory Statement 9/16. The CSS(E)L Group will continue to enhance its capabilities to ensure they are sufficiently robust to support critical services through the stabilisation and restructuring phase, in the unlikely event of the company failing.

Regulatory

Markets in Financial Instruments Directive II ('MiFID II') and the Markets in Financial Instruments Regulation ('MiFIR')

have applied since 3 January 2018. MiFID II and MiFIR have introduced a number of significant changes to the regulatory framework established by the Markets in Financial Instruments Directive ('MiFID') and the European Commission has adopted a number of delegated and implementing measures, which supplement their requirements. In particular, MiFID II and MiFIR have introduced enhanced organisational and business conduct standards that apply to investment firms and changes to certain market structures and business operating models. CSS(E)L has substantively completed its MiFID II programme and is monitoring the impact of this regulation on clients and market behaviour.

The BCBS published the 'Principles for effective risk data aggregation and risk reporting' (BCBS 239) in 2013 in order to strengthen banks' risk data aggregation and risk reporting practices and enhance risk management and decision-making processes. CSS(E)L implemented these principles with respect to a defined scope of risk measures and risk reports.

CSS(E)L continues to monitor and adapt to ongoing changes in the regulatory and accounting environment.

Performance

Key Performance Indicators ('KPI's')

The Company uses a range of KPI's to manage its financial position which are critical to the successful management of the

business and to achieve the Company's objectives. Profitability and Risk Weighted Assets ('RWA') are regularly reviewed at the business line level to promote the drive towards the development and maintenance of a profitable and capital efficient business.

	2018	2017	2016	2015	2014
Earnings					
Net profit/(loss) before tax (USD million):					
Continuing operations	(65)	(487)	(102)	(605)	(497)
Discontinued operations	15	96	122	8	95
Total	(50)	(391)	20	(597)	(402)
Consolidated Statement of Financial Position (USD million):					
Total Assets	95,532	123,782	118,953	143,542	193,438
Total Asset growth/(reduction)	(22.82)%	4.06%	(17.13)%	(25.79)%	(10.53)%
Return on Total Assets	(0.05)%	(0.32)%	0.02%	(0.42)%	(0.21)%
Capital (USD million):					
Risk Weighted Assets	23,679	27,472	30,391	33,277	46,099
Tier 1 capital	6,635	6,697	7,227	7,124	7,391
Return on Tier 1 capital	(0.75)%	(5.84)%	0.28%	(8.38)%	(5.44)%
Liquidity (USD million):					
Liquidity Buffer	16,126	17,884	20,636	19,216	15,640

Capital

The decrease in Risk Weighted Assets ('RWA') by USD 4 billion to USD 24 billion was a result of the transfer of Prime Services business from CSS(E)L to Credit Suisse AG, Dublin Branch, as well as the restructuring of trades in the SRU.

Capital Resources

The Company closely monitors its capital 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 or to the Company's business model and includes reviewing potential opportunities to repay capital to shareholders.

CSS(E)L completed a share capital restructure by transferring share premium contribution to retained earnings during 2018. As a result CSS(E)L changed from a retained loss to retained profit.

The Company is required at all times to monitor and demonstrate compliance with the relevant regulatory capital requirements of the PRA. The Company did not breach any capital limits during the year.

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

During the year, no subordinated debt was repaid (2017: USD 1.3 billion was repaid to CS PSL GmbH).

→ Changes in senior and subordinated debt are set out in Note 27 – Debt in Issuance.

→ Changes in capital are set out in Note 30 – Share Capital and Share Premium.

Liquidity

CSS(E)L maintains a strong liquidity position and also has a letter of intent from Credit Suisse AG ensuring support for meeting CSS(E)L's debt obligations and maintaining a sound financial position over the foreseeable future. The Company maintains compliance with all liquidity ratios and limits and did not breach any liquidity regulatory limits during the year.

The liquidity buffer reduced by USD 2 billion to USD 16 billion (2017: USD 18 billion) primarily due to the ongoing transfer of the Prime Services platform to Credit Suisse AG, Dublin Branch resulting in a reduction in risk for the CSS(E)L Group.

Consolidated Statement of Income

	2018	2017 ¹	2016 ¹	2015 ¹	2014 ¹
Consolidated Statement of Income (USD million)					
Net revenues	1,259	973	995	824	1,163
Total operating expenses	(1,324)	(1,460)	(1,097)	(1,429)	(1,660)
Profit/(Loss) before tax from continuing operations	(65)	(487)	(102)	(605)	(497)
Profit/(Loss) before tax from discontinuing operations	15	96	122	8	95
Profit/(Loss) before tax	(50)	(391)	20	(597)	(402)
Income tax benefit/(expense) from continuing operations	(60)	(11)	(5)	42	(151)
Income tax benefit/(expense) from discontinuing operations	(3)	(47)	(43)	(3)	–
Profit/(Loss) after tax	(113)	(449)	(28)	(558)	(553)

¹ Comparatives have not been restated for the impact of IFRS 15

The CSS(E)L Group has reported a net loss of attributable to shareholders of USD (113) million (2017: USD (449) million loss). Loss before tax for the CSS(E)L Group was USD (50) million

(2017: USD (391) million). The increase in Net revenues compared with prior years is primarily due to IFRS 15 which saw certain revenues and expenses reported on a gross basis.

Net Revenues

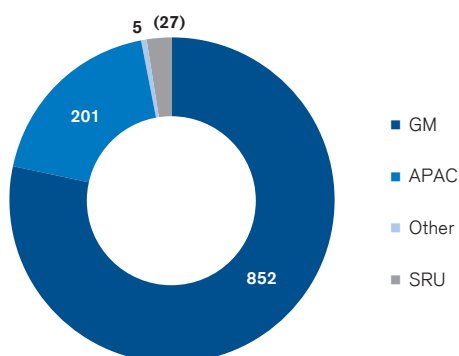
	2018	2017 ¹	Variance	% Variance
Segment revenues (Continued and Discontinued) (USD million)				
Total Revenues for Continuing businesses ²				
- GM	750	611	139	23%
- APAC	201	202	(1)	(0)%
- Other	5	26	(21)	(81)%
- SRU	(27)	4	(31)	775%
Revenue sharing agreements	136	(55)	191	347%
Treasury funding	(123)	(176)	53	30%
Other corporate items	26	5	21	(420)%
Other	2	11	(9)	82%
CSS(E)L Group to primary reporting reconciliations	289	345	(56)	16%
Net revenues for continued businesses	1,259	973	286	29%
Net revenues for discontinued businesses – GM	102	351	(249)	71%
Total Net revenues	1,361	1,324	37	3%

¹ Comparatives have not been restated for the impact of IFRS 15

² 2017 numbers have been re-stated to conform to current period's presentation

Revenues of each reporting segment are as follows:

2018 (USD million)



In 2018, Global Markets revenues (including continued and discontinued) decreased 11% year on year to USD 852 million, as continued challenging trading conditions resulted in low levels of client activity.

Asia Pacific revenues remained flat year on year with revenues of USD 201 million.

SRU revenues decreased by USD (31) million to USD (27) million primarily due to the Longevity business driven by updates to life expectancy estimates.

Revenue sharing agreements increased by USD 191 million to USD 136 million this relates to the adoption of IFRS 15 Revenue from Contracts with Customers on 1 January 2018. Under the new accounting standard, revenues related to revenue sharing agreements are presented gross of offsetting expenses in contrast to prior periods in which these were presented on a net basis.

Expenses

	2018	2017 ¹	Variance	% Variance
Operating expenses (USD million)				
Compensation and Benefits	(268)	(520)	252	(48)%
General, administrative and trading expenses	(1,028)	(906)	(122)	13%
Restructuring expenses	(28)	(34)	6	(18)%
Total continued operating expenses	(1,324)	(1,460)	136	(9)%
Discontinued operating expenses	(87)	(255)	168	(66)%
Total operating expenses	(1,411)	(1,715)	304	(18)%

¹ Comparatives have not been restated for the impact of IFRS 15

The CSS(E)L Group's operating expenses (including Continued and Discontinued operations, refer to Note 28 – Discontinued Operations and Assets Held for Sale) decreased by USD 304 million to USD 1,411 million (2017: USD 1,715 million). Compensation and Benefits reduced by USD 252 million to USD 268 million driven by lower salary costs of USD 104 million due to a reduction in headcount mainly driven by the transfer of employees to Credit Suisse International and Credit Suisse Services AG, London Branch. In addition a decrease in deferred compensation of USD 85 million due to the valuation of deferred compensation awards linked to the CSG share price, which decreased in 2018.

General and administrative expenses increase by USD 122 million to USD 1,028 million due to:

- Brokerage commission expense increase by USD 237 million mainly due to increase in clearing and exchange related expense as less expense qualified as Discontinued Operations in 2018;
- Increase in transfer pricing expenses USD 103 million driven by service receiver costs reported as an expense under IFRS 15;
- Offset by decrease in non income tax of USD 68 million;
- Decrease in provisions of USD 60 million in relation to litigation in SRU; and
- Professional service expenses reduced USD 65 million due to a reduction in fees paid to CSi for CSS(E)L GM / CSi IBCM

joint venture for underwriting which is in-line with reduced underwriting revenues and a reduction in contractor costs as part of ongoing cost discipline.

The effective tax rate for the period to December 2018 is higher than the UK statutory tax rate. The material items impacting the effective tax rate are permanent differences and non-recoverable foreign taxes, partially offset by the benefit of deferred taxes previously not recognised. Similarly, the effective tax rate for the period to December 2017 was higher than the UK statutory tax rate. In that period, the material items impacting the effective tax rate were permanent differences, non-recoverable foreign taxes, prior year adjustments and deferred tax not recognised.

The CSS(E)L Group has incurred substantial taxes in the UK during 2018, including Bank Levy of USD 21 million (2017: USD 27 million), employer's national insurance of USD 42 million (2017: USD 67 million) and irrecoverable UK value added tax ('VAT') of USD 41 million (2017: USD 72 million). As disclosed in Note 45 – Country-by-Country Reporting, Corporation taxes paid in the United Kingdom ('UK') for CSS(E)L are nil (2017: USD Nil) as the Company has not made taxable profits during the year. The CSS(E)L Group has paid USD 20 million (2017: USD 24 million) in taxes in branches located outside of the UK.

Consolidated Statement of Financial Position

As at 31 December 2018 the CSS(E)L Group had total assets of USD 96 billion (31 December 2017: USD 124 billion) as shown in the Consolidated Statement of Financial Position on page 37.

Business driven movement in the Consolidated Statement of Financial Position are:

- A decrease in Assets held for sale of USD 20 billion due to the Prime Services migration to Credit Suisse AG, Dublin Branch in 2018.

Further movements in the Consolidated Statement of Financial Position reflect the impacts of managing the required liquidity profile in accordance with risk appetite, regulatory requirements including European Banking Authority ('EBA') Basel III, and overall optimisation of the funding profile. This has resulted in:

- A decrease in lending by Treasury of excess cash generated by the business divisions to Credit Suisse AG, London Branch which is reflected in a decrease in Interest bearing deposits with banks of USD 13 billion as this cash was used to partially repay Debt in issuance;
- An increase of USD 12 billion in Non-trading financial assets fair value through profit or loss as there was a switch to sourcing collateral including HQLA from the divisions who elect to fair value the repo transactions. This replaces collateral sourced by Treasury which does not fair value these transactions. The reduction is seen in Securities purchased under resale agreements and securities borrowing transactions;
- A decrease in Debt in issuance of USD 9 billion driven by liquidity management with Credit Suisse AG, London Branch.

In addition USD 1.2 billion of Minimum requirement for own funds and eligible liabilities (MREL) notes debt was repaid to Credit Suisse Investments (UK) as it was no longer required.

Financial instruments carried at fair value are categorised under the three levels of the fair value hierarchy; where the significant inputs for the Level 3 assets and liabilities are unobservable.

Total Level 3 assets decreased to USD 2.2 billion as at 31 December 2018 (31 December 2017: USD 2.7 billion) mainly driven by a decrease in life finance instruments due to asset sales. This was equivalent to 2.3% of total assets (2017: 2.2%). Total Level 3 liabilities were USD 0.9 billion as at 31 December 2018 (31 December 2017: USD 0.9 billion) primarily driven by other derivatives. This was equivalent to 1.1% (2017:0.7%) of total liabilities.

→ Fair Value disclosures are presented in Note 39 – Financial Instruments.

Discontinued operations and assets held for sale

CSS(E)L Group has been migrating part of the Prime Services business to Credit Suisse AG (acting through its Dublin branch) and is expected to substantially complete the migration in 2019.

CSS(E)L Group is also planning to transfer the remainder of the Prime Service assets and liabilities to CSI, now expected to commence in 2019.

→ Please see Note 28 – Discontinued Operations and Asset Held for sale in the accounts for further details.

Principal risks and uncertainties

Significant Risks

RISK TYPE	DESCRIPTION	HOW RISKS ARE MANAGED
Conduct Risk	The risk that improper behaviour or judgement by our employees results in negative financial or non-financial, or reputational impact to our clients, employees, the firm and the integrity of the market.	CSS(E)L apply conduct risk across the bank's Enterprise Risk and Control Framework ('ERCF') Risk Register to identify potential conduct risks and evaluate conduct breaches that have occurred. In line with CSS(E)L's overall risk management model, all staff are responsible for assessing and managing the conduct risks inherent in the activities they undertake. Identifying and understanding conduct risk enables us to take appropriate remedial action, improve CSS(E)L's controls, and assess lessons learned
Credit Risk	The risk of a loss arising as a result of a borrower or counterparty failing to meet its financial obligations or as a result of deterioration in the credit quality of the borrower, or counterparty.	Credit risk in CSS(E)L is managed by the CSS(E)L Credit Risk Management ('CSS(E)L CRM') department, which is headed by the CSS(E)L Chief Credit Officer ('CSS(E)L CCO'). CSS(E)L CRM is a part of the wider CRM department, which is an independent function with responsibility for approving credit limits, monitoring and managing individual exposures and assessing and managing the quality of the segment and business area credit portfolios and allowances. All credit limits in CSS(E)L are subject to approval by CSS(E)L CRM.
Liquidity Risk	The risk that a company is unable to fund assets and meet obligations as they fall due under both normal and stressed market conditions.	The liquidity risk of CSS(E)L is managed as an integral part of the overall CS global liquidity risk management framework. This legal entity liquidity risk management framework also includes local regulatory compliance requirements. Such compliance requirements are measured as part of the PRA's Individual Liquidity Guidance ('ILG') which results in CSS(E)L holding term funding and a local liquid asset buffer of qualifying securities.
Market Risk	The risk of a 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 and correlations.	CSS(E)L has policies and processes in place to ensure that market risk is captured, accurately modelled and reported, and effectively managed. Trading and non-trading portfolios are managed at various organisational levels, from the overall risk positions at the Company level down to specific portfolios. CSS(E)L uses market risk measurement and management methods in line with regulatory and industry standards. The principal portfolio measurement methodologies are Value-At-Risk ('VaR') and scenario analysis. The risk management techniques and policies are regularly reviewed to ensure they remain appropriate.
Operational Risk	The risk of a loss resulting from inadequate or failed internal processes, people and systems or from external events. This includes risks arising from the failure to comply with laws, regulations, rules or market standards that may have a negative effect on our franchise and clients we serve.	CSS(E)L believes the effective management of operational risk requires a common operational risk framework that focuses on the early identification, recording, assessment, monitoring, prevention and mitigation of operational risks, as well as timely and meaningful management reporting. The Enterprise Risk and Control Framework ('ERCF') integrates the Operational Risk Framework with Compliance related components to provide coverage for operational risks, including technology, cyber, compliance and conduct risk.
Reputational Risk	The risk that an action, transaction, investment or event results in damages to CSS(E)L's reputation as perceived by clients, shareholders, the media and the public.	CSS(E)L has a Reputational Risk Review Process ('RRRP'). All formal submissions in the RRRP require review by senior business management in the relevant division, and are then subsequently referred to one of the CSS(E)L Reputational Approvers ('RRA'), each of whom is independent of the business divisions and has the authority to approve, reject or impose conditions on the Company'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, management from divisions, corporate functions and CSS(E)L entity management.
Technology Risk	The risk of failure or malfunction of storage, server or other Technology assets impacting business operability and access to information, and leading to harm or loss, whether caused by: an IT failure or an external cyber-attack; Theft of CSS(E)L data and/or information by a third party; Unintentional or intentional theft or misuse of internal (non-public) CSS(E)L data or information by a CSS(E)L employee/contractor.	Technology risks are managed through CSS(E)L's technology risk management program, business continuity management plan and business contingency and resiliency plans. Technology risks are included as part of CSS(E)L's overall enterprise risk and control assessment based upon a forward-looking approach focusing on the most significant risks in terms of potential impact and likelihood. CSS(E)L has an enterprise-wide Cybersecurity Strategy to provide strategic guidance to achieve an optimised end-to-end security and risk competence that enables a secure and innovative business environment, aligned with the Company's risk appetite.

Other Key Risks

UK EU Exit

CSS(E)L provides a comprehensive range of services to clients through both the London operations and a number of branches across Continental Europe. CSS(E)L has been preparing for a hard exit. Please refer to the earlier Strategy section for details of CSS(E)L's plans, where CSS(E)L details out the target locations for CSS(E)L's European business and the following Risk Exposure section for more detail on our country Credit exposures.

Litigation

The main litigation matters are set out in Note 37 – Guarantees and Commitments. CSS(E)L is the defendant in several legal cases, currently some of these have led to claims being made against the firm. CSS(E)L is defending itself with regards to these claims.

Risk Exposures

Longevity Risk

CSS(E)L has a portfolio of life insurance products that are long dated and relatively illiquid. The portfolio is managed by the ARU reflecting the fact that this is a legacy business where the risk exposure is being exited. The principle risk drivers are potential premium increases and changes in expected mortality within the portfolio.

Credit Risk

CSS(E)L has a global portfolio with exposures driven by a number of businesses across diverse industries, and is therefore exposed to risks from a broad range of sources. These risks are managed within the CSS(E)L Credit Risk Framework to ensure control and oversight of any concentrations by product, industry or geography. Some of the events and risk areas which could potentially have an impact on the credit portfolio of the Company are now discussed further.

The main drivers of credit risk in CSS(E)L are trading in securities financing and derivatives activity. In aggregate, credit exposure in CSS(E)L decreased by USD 3 billion to USD 8.5 billion (on a Potential Exposure basis), driven by reductions in exposure to funds and banks.

EU exit is a significant risk for both the UK and EU, with uncertainty remaining around the future relationship between the UK

and the EU. On an industry basis, CSS(E)L has exposure to counterparties in the UK and across the EU, with material exposures to banks, central counterparties, and funds. However, the Bank of England and the European Commission have indicated that cross-border recognition of CCPs will continue on a temporary basis in order to ensure continuity of clearing services in the event of no-deal being agreed between the UK and the EU.

Republic of Korea (“South Korea”)

CSS(E)L undertakes business in South Korea through its branch in Seoul and has a Korean portfolio made up of short-term listed derivatives, securities borrowing and lending, and money market transactions. CSS(E)L has assigned an internal rating of AA- to South Korea based on its macro-economic resilience, fiscal prudence, healthy balance sheet and current account surplus. Recent de-escalation of geopolitical tensions mitigates the persistence of the threat of armed conflict in the Korean peninsula. Notwithstanding the series of developments since the beginning of 2018, we assess that the threat to South Korea's credit profile posed by geopolitical risk remains moderate, given considerable uncertainties relating to the peace process.

Credit Risk Exposure Views by Country and Industry Segment

The following table shows selected exposures in CSS(E)L by country, including the two largest countries and risk focus countries/regions. The largest country exposures are in large developed countries (United States and United Kingdom), and collectively these countries account for approximately 40% of the total exposure. CSS(E)L undertakes business with counterparties across the Eurozone and the table includes the countries with the largest net exposures. With respect to emerging markets, CSS(E)L has exposure to financial institutions in South Korea through its local branch in Seoul.

Gross credit risk exposures, presented on a risk based view, include loans and loan commitments, investments (such as cash securities and other investments) and all exposures of derivatives (not limited to credit protection purchased and sold), after consideration of legally enforceable netting agreements. Gross exposures are calculated after offsetting long and short positions, capped at nil for net short positions. Net exposures include the impact of risk mitigation such as CDS and other hedges, guarantees, insurance and collateral (primarily cash and securities). Collateral values applied for the calculation of the net exposure are determined in accordance with risk management policies and reflect applicable margining considerations.

31 December 2018 (USD millions)	Sovereign		Financial Institutions		Corporate		Total		Annual Δ		Net Exposure as % of All Country Exposures
	Gross Exposure	Net Exposure	Gross Exposure	Net Exposure	Gross Exposure	Net Exposure	Gross Exposure	Net Exposure	Gross Exposure	Net Exposure	
United States	16	16	2,575	1,519	38	38	2,629	1,573	68	(920)	23%
United Kingdom	0	0	1,768	1,052	149	149	1,917	1,201	(1,044)	(1,162)	18%
Republic of Korea	0	0	692	689	0	0	692	689	(67)	(68)	10%
European Union	5	5	2,114	1,473	303	303	2,422	1,781	91	(436)	26%
- of which France	2	2	509	383	55	55	566	440	64	(26)	7%
- of which Germany	0	0	517	335	44	44	561	379	59	(123)	6%
- of which Netherlands	0	0	357	301	72	72	429	373	115	59	6%
- of which Italy	0	0	265	42	12	12	277	54	64	(82)	1%
- of which Luxembourg	0	0	103	103	36	36	139	139	(11)	(11)	2%
- of which Spain	0	0	62	62	5	5	67	67	(81)	(81)	1%
Russia	1	1	9	9	24	24	34	34	(29)	(29)	1%
Turkey	0	0	19	19	11	11	30	30	(14)	(14)	0%
Total	22	22	7,177	4,761	525	525	7,724	5,308	(995)	(2,629)	78%

31 December 2017 (USD millions)	Sovereign		Financial Institutions		Corporate		Total		
	Gross Exposure	Net Exposure	Gross Exposure	Net Exposure	Gross Exposure	Net Exposure	Gross Exposure	Net Exposure	
United States		37	37	2,507	2,439	18	18	2,562	2,494
United Kingdom		0	0	2,799	2,202	162	162	2,961	2,364
Republic of Korea		0	0	758	757	0	0	758	757
European Union		58	58	1,889	1,775	385	385	2,332	2,218
- of which France		0	0	416	380	85	85	501	465
- of which Germany		0	0	422	422	80	80	502	502
- of which Netherlands		0	0	248	248	67	67	315	315
- of which Italy		0	0	127	50	86	86	213	136
- of which Luxembourg		25	25	115	115	10	10	150	150
- of which Spain		0	0	115	115	33	33	148	148
Russia		0	0	46	46	17	17	63	63
Turkey		1	1	39	39	4	4	44	44
Total		96	96	8,038	7,258	586	586	8,720	7,940

The following table shows selected exposures in CSS(E)L by industry, including the three largest industries and risk focus

industries. CSS(E)L's largest industry exposures are with Funds, Commercial Banks and CCPs.

Industry Segments (USD millions)	2018			2017			Annual Δ	
	Gross Exposure	Net Exposure	Net Exposure as % of All Industry Segment Exposures	Gross Exposure	Net Exposure	Gross Exposure	Net Exposure	
Funds, Assets, Trusts, and Other Financial Vehicles	2,783	1,473	26%	4,175	3,228	(1,392)	(1,755)	
Commercial Banks	1,859	1,674	29%	2,502	2,042	(643)	(368)	
Central Clearing Parties	946	946	16%	931	931	15	15	
Total	5,588	4,093	71%	7,608	6,201	(2,020)	(2,108)	

The other risks are set out in Note 42 – Financial Risk Management.

Risk Management

Overview

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

Risk Governance

The prudent taking of risk in line with the Company's strategic priorities is fundamental to its business as part of a leading global banking group. To meet the challenges in a fast changing industry with new market players and innovative and complex products, the Company seeks to continuously strengthen the risk function, which is independent of but closely interacts with the businesses. Further information is included within Corporate Governance.

Risk Organisation

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

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

The Risk Management department in 2018, comprised of:

- Market Risk Management ('MRM');
- Treasury and Liquidity Risk Management ('TLRM');
- Credit Risk Management ('CRM'); and
- Enterprise & Operational Risk Management ('EORM').

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

- The MRM department are responsible for assessing, monitoring and managing the market risk profiles of the Company and recommends corrective action where necessary;
- The TLRM department are responsible for assessing, monitoring and managing the liquidity risk profiles of the Company and recommends corrective action where necessary;
- CRM is responsible for approving credit limits, monitoring, and managing individual exposures, and assessing and managing the quality of credit portfolios and allowances; and
- EORM provides holistic risk coverage focusing on cross-functional and cross-divisional risk governance, frameworks, best practice, policies and processes. It drives risk reporting and analysis and provides risk coverage for enterprise, operational, model, reputational and CRO relevant regulatory risk management.

These areas form part of a matrix management structure with reporting lines into both the Company CRO and the relevant Global Risk Head. Furthermore, these departments are supported by a global infrastructure and data process which is largely maintained by the central, Risk and Finance Data and Reporting ('RFDAR') group as well as the CRO change team which is responsible for the delivery of the strategic and regulatory change portfolio sponsored by the Risk division.

Risk Appetite

A sound system of risk limits is fundamental to effective risk management. The limits define the Company's risk appetite given management capabilities, the market environment, business strategy and financial resources available to absorb potential losses. The overall risk limits for the Company are set by the Board.

Within the bounds of the overall risk appetite of the Company, as defined by the limits set by the Board, the CRO is the nominated executive who is responsible for implementing a limit framework. The Company has a range of more granular limits for individual businesses, concentrations and specific risks, including limits on transactions booked from remote locations.

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

linked to risk and control indicators) terms. Alignment to business strategy is a key requirement to ensure the Risk Appetite framework is effective in managing to the entities' acceptable risk profile and acting as an early warning indicator for material changes in risk profile. Capital Limits for each material risk type are determined by Enterprise Risk Management and cascaded to each risk area for use as a calibration point for the lower level limit cascade. Limits are reviewed quarterly against the capital plan and are aligned to divisional limits which are cascaded by the CFO function covering all risk types.

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

→ The Company's financial risk management objectives and policies and the exposure of the CSS(E)L Group to market risk, credit risk, liquidity risk, currency and operational risk are outlined in Note 42 – Financial Risk Management.

Corporate Responsibility

Overview

CSG publishes a comprehensive Corporate Responsibility Report which can be found on CS group's website at www.credit-suisse.com/crr. The Corporate Responsibility Report describes how Credit Suisse assumes its various responsibilities towards society and the environment across CSG including CSS(E)L.

For CS group, corporate responsibility is about sustainable value for clients, shareholders, employees and other stakeholders. CS group strives to comply with the values and standards set out in its Code of Conduct in every aspect of work including its relationships with stakeholders. This is based on a broad understanding of duties as a financial services provider and employer and as an integral part of the economy and society. The CS group approach also reflects its commitment to protecting the environment. CS group's primary focus as a global bank is on running its business responsibly and successfully. CS group is aware of the high standards expected of it and endeavours to engage in an open dialogue with various stakeholders. This enables CS group to actively identify the needs and interests, to develop appropriate solutions and to take account of key challenges when evolving the CS group strategy.

Environmental Matters

CS group believes that it is in the interests of both the Company and its clients to develop and support measures that contribute to a more environmentally sustainable economy. These commitments are based on the Code of Conduct, which lists "Sustainability" as one of the six professional standards. The "Statement on Sustainability" explains the aims relating to the balancing of economic, environmental and social issues when performing activities as a Company. The UN Global Compact and the Sustainable Development Goals adopted by the UN in 2015 are other important points of reference.

In CS group's banking businesses, environmental and social aspects are considered when managing transaction-related risks. By applying Reputational Risk Review Process, CS group assesses whether projects or client activities could pose a major risk to the environment, the climate or biodiversity. In CSS(E)L, decisions regarding reputational risks are made by one or two Reputational Risk Approvers, or escalated to the CSS(E)L Reputational risk Committee. If necessary, decisions can be further escalated to the Global Reputational Risk and Sustainability Committee.

To open up sources of capital for the development of future markets, CS group also offers clients a broad range of investment products and services with a focus on environmental and social themes. To further facilitate projects and initiatives that make a positive economic and social impact, CS group established the impact Advisory and Finance Department ('IAF') in 2017.

Further information:

- Environmental and Social Risk Management: www.credit-suisse.com/riskmanagement
- Climate Change; the "Statement on Climate Change": www.credit-suisse.com/climate
- Biodiversity and Natural Capital: www.credit-suisse.com/conservationfinance
- Environmental Management (including CS group key performance indicators): www.credit-suisse.com/environmentalmanagement

Climate Change

Following the publication of recommendations from the FSB's Task Force on Climate-related Financial Disclosures ('TCFD') in June 2017, climate risk is emerging as an important area of focus for the banking industry. In 2018, the UK's PRA's consulted on its expectations of the management of the financial risks of climate change, which are broadly aligned with the TCFD recommendations.

In response to the TCFD recommendations, CS group has established a climate change program with the overall goal to address recommendations related to external disclosures of climate-linked risks and opportunities. Key areas of focus in 2018 included updating key policies, developing a 2°C and a 4°C scenario as part of a plan to assess the resilience of the firm's strategy towards climate change and developing internal metrics for climate-related risks. The ultimate aim is to leverage existing risk management processes and capabilities for the management of climate risk exposures, potentially including financial planning and strategy setting, by mapping the underlying climate risks to existing risk types.

CSS(E)L is in the process of developing a framework for climate risk, in line with the CS group's overall framework for TCFD implementation. CSS(E)L participated in the PRA's consultation through its industry association.

Economy and Society

The primary function of a global bank is to be a reliable and professional partner to clients around the world, offering them a range of financial products and services to meet their individual needs. In this context, CS group performs functions that are viewed as systemically relevant, including deposit-taking and lending. CS group plays an important role as a financial intermediary, bringing together borrowers and lenders of capital globally, from companies and public sector bodies to private individuals and institutions. CS group supplies businesses with the capital resources they need to expand their activities and finance innovation, thus helping to drive economic growth and job creation.

By assuming market and credit risks, banks make an important contribution to the efficient functioning of the economic system. Effective risk management is an important part of this process. In the credit business, for example, CS group analyses, measures

and monitors credit risk exposures and charge appropriate interest rates on loans. CS group's capital policy is intended to ensure that it is capable of absorbing potential credit losses in a variety of stress scenarios. CS group achieves this by supporting growth, partnering with entrepreneurs; by being an integral part of the economy and society, maintaining a constructive dialogues with various stakeholders and broader social commitments.

CSS(E)L, together with the Credit Suisse EMEA foundation, has focused locally on improving the educational attainment, aspiration and employability of disadvantaged young people. The Credit Suisse EMEA Foundation supports City Year UK, which provides teams of volunteers serving as mentors, role models and peer tutors in Birmingham, Manchester and London. Building on its history of supporting pioneering organisations, CS group launched in 2018 the Small Grants Programme, which identifies and invests in the next generation of innovative organisations. The selection of current partners – Brightside, Maths with Parents, Street League and the Difference – was guided by four priority themes: mental health, careers advice and access to high education, support to vulnerable groups and confidence; and by the potential for the grants to leverage the necessary support to test new models with high impact potential. The Small Grant Programme enhanced the CS group's existing charity partners portfolio and strengthen its role as a driver for innovation.

The Credit Suisse EMEA Foundation also lends its support to the charitable organisation Frontline, of which it is a founding partner. Frontline runs a two-year program to recruit and train high-potential university graduates to become social workers. It also deploys a series of measures such as raising the profile of careers in social work, developing the leadership skills of social workers, and establishing a community to provide support for people from disadvantaged backgrounds.

→ More details can be found at:
www.credit-suisse.com/responsibility/society

Employee Matters

The success of CSS(E)L has a significant dependency on the skills, experience and conducts of its employees and employees of other CS group entities.

Corporate Employee Policy

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

CSS(E)L is committed to delivering on the global Diversity and Inclusion strategy, ensuring a working environment free from discrimination. This commitment can be seen in many programmes

and networks in place, which are firmly embedded within the UK businesses and are an essential element of the CSS(E)L working culture.

CSS(E)L has been focusing on gender diversity for a number of years, including assessing gender representation across the UK businesses to see if there is more CSS(E)L could be doing to increase the number of senior women in the organisation. This has led to an enhancement in CSS(E)L's existing gender strategy to concentrate on key elements across the employee lifecycle. As part of this programme, in June 2016 CSG was one of the first signatories to Her Majesty's Treasury Women in Finance Charter and will aim for a minimum of 35% female representation on its management committees by the end of 2020. This, combined with existing high profile initiatives such as 'Real Returns' (a programme designed to re-engage talented senior professionals and help facilitate their transition back into the workforce), will be at the heart of CSS(E)L's continued drive for tangible and positive change in diversity, making it truly reflective of the communities we live in, partner with and serve.

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

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

In 2017, CS group launched a set of new Conduct and Ethics Standards, new governance was implemented in the UK to manage the delivery of a group-wide Culture Program and disciplinary process. As such, the UK Culture Steering Committee and the Disciplinary Review Committee became the UK Conduct and Ethics Board ('UK CEB').

The UK CEB has two related purposes:

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

With regards to disciplinary decisions the UK CEB:

- reviews the outcome of disciplinary cases on a quarterly retrospective basis (the “ex-post facto review”) to assess fairness and consistency and meeting both internal and external expectations;
- considers the impact of a disciplinary sanction on compensation, rating and promotion eligibility;
- monitors the conduct and ethics trends in the UK;
- implements mitigating measures to ensure disciplinary infractions are not repeated in alignment with the Divisions/Corporate Functions and escalating concerns to the relevant CEB; and
- collaborates with Divisional/Corporate Functions and any other regional CEBs to ensure the way in which they address misconduct for employees in the scope of the UK Legal Entities meets with the expectations of the UK CEB and UK regulators.

The CS group supports 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 operate within the Company, which are run by employees on a voluntary basis, and focus on gender, families, lesbian, gay, bisexual and transgender individuals, the older and younger generations and employees from various ethnic backgrounds. The networks within the Company also support veterans, employees with physical disabilities, mental health issues and employees who have responsibilities of care.

CS group is committed to its policies on equal employment opportunity and dignity at work for all employees. In the event that an employee becomes disabled during employment, CS group makes every effort to enable their employment to continue, putting in place reasonable adjustments and training where required. CS group aims to treat such employees no differently from employees without a disability throughout their career, including in relation to training, career development and promotion opportunities. CS group offers a range of flexible medical benefits and also income protection benefits for employees who, whether temporarily or permanently, are unable to work due to disability. In 2019, a Wellbeing Programme has been launched in the UK, which introduced a number of initiatives designed to support employees’ financial, physical and mental wellbeing.

In July 2018, CS group appointed a global Conduct & Ethics Ombudswoman who serves as a point of immediate escalation when sexual harassment claims arise to ensure appropriate senior management awareness of and attention to such claims. In addition, the Ombudswoman has been conducting an in-depth review of existing policies, protocols, practices and training programmes globally, with a view to enhancing them to promote awareness of and sensitivity to these issues.

CS group is committed to keeping employees informed of changes within the organisation, including but certainly not limited to, financial and economic factors affecting the performance of the CS group and CSS(E)L. This is achieved using many different approaches, such as town hall meetings with senior management, management meetings across the bank, webcasts, a

dynamic intranet, active employee networks and electronic bulletins focused on specific issues. In addition, employee consultation takes place in various forms on certain topics. Employee feedback is frequently sought and is encouraged. CS group’s compensation policy includes a performance-related employee share plan.

Respect for Human Rights

CS group strives to assume responsibilities in the area of human rights in accordance with the International Bill of Human Rights as well as the corresponding principles on human and labour rights set out in the UN Global Compact. CS group takes account of these principles in its own policies and business activities. The “Statement on Human Rights” describes the foundations of CS group’s responsibility to respect human rights and the approaches, processes and tools used to implement it. Equally, CS group expects its business partners to recognise and uphold human rights.

CS group consider human rights issues in our risk management processes and are aware of its responsibilities as an employer. Furthermore, the Modern Slavery and Human Trafficking Transparency Statement sets out the steps that CS group is taking to prevent the occurrence of modern slavery and human trafficking in its business operations and within its supply chain. CSS(E)L has been a Living Wage Employer since 2017.

Further information on the topic of human rights, including our Modern Slavery and Human Trafficking Transparency Statement, can be found at:

→ www.credit-suisse.com/humanrights

Modern Slavery and Human Trafficking

In its role as an employer, and as a user and provider of services, CS group is committed to human rights and respects them as a key element of responsible business conduct. CS group voluntarily commits to uphold certain international agreements relating to human rights, including: the Equator Principles, Principles for Responsible Investment and UN Global Compact.

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

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

Anti- Bribery and Corruption Matters

CS group strives to prevent the improper use of products and service by third parties. As part of the efforts to fulfill its due diligence requirements, CS group uses strict internal control policies. The policies govern topics such as business relations with political exposed persons, the prevention of money laundering and terrorist financing, and adherence to applicable economic and trade sanctions laws. CS group has a range of policies, procedures and internal controls, with requirements such as the screening of third parties who conduct business for or on behalf of CS group and

dedicated controls related to gifts and entertainment, internships and other employment opportunities, charitable contributions and sponsorship. Furthermore, the CS group is actively involved in the development and implementation of industry standards to combat money laundering and corruption.

The CS group undergoes a bank-wide standardised Reputational Risk Review Process. Employees are required to regularly complete mandatory online training courses on topics ranging from the prevention of money laundering, terrorist financing and corruption to compliance with economic sanctions. Additionally, employees have a duty to report concerns of potential legal, regulatory or ethical misconduct to their line managers or to Financial Crime Compliance and Regulatory Affairs. Employees worldwide also have the option of calling a CS group Integrity Hotline, where they can report such issues anonymously, where permitted by local law.

Corporate Governance

Members of the Board and Board Committees

The CSS(E)L Board of Directors ('Board') is responsible for governance arrangements that ensure effective and prudent management of CSS(E)L, including the segregation of duties and the prevention of conflicts of interest. The Board approves and oversees the implementation of strategic objectives, risk strategy

and internal governance; ensures the integrity of the accounting and financial reporting systems; oversees disclosure and communications processes; provides effective oversight of senior management; and assesses the effectiveness of governance arrangements.

	Board member since	Independence	Audit Committee	Risk Committee	Nomination Committee	Advisory Remuneration Committee	Conflicts Committee
Noreen Doyle, Chair	2011	Independent	-	Member	Chair	Chair	-
David Mathers, CEO	2016	-	-	-	-	-	-
Alison Halsey	2015	Independent	Chair	Member	Member	Member	Chair
Robert Endersby	2016	Independent	Member	Chair	-	Member	Member
John Devine	2017	Independent	Member	-	Member	-	Member
Andreas Gottschling	2018	-	-	Member	-	Member	-
Caroline Waddington, CFO	2017	-	-	-	-	-	-
Christopher Horne, Deputy CEO	2015	-	-	-	-	-	-
Paul Ingram, CRO	2015	-	-	-	-	-	-
Jonathan Moore	2017	-	-	-	-	-	-
Nicola Kane	2018	-	-	-	-	-	-

Board and Management

A number of management and governance changes have been effected since 1 January 2018. Nicola Kane has been appointed as an Executive Director and Andreas Gottschling has been appointed as a Non-Executive Director. Andreas Gottschling is also a Non-Executive Director of Credit Suisse AG and CSG.

As required by the PRA & FCA, Senior Managers & Certification Regime ('SMCR') has been in operation since Q1 2016. The SMCR framework seeks to increase individual accountability and enhance culture in Financial Services through:

- Mandating the clear allocation of all activities, business areas and management functions of the in-scope legal entities to a small number of Senior Managers who are approved by the United Kingdom ('UK') Regulators;
- Identifying a set of functions that expose the in-scope legal entities to risk through their day-to-day activities and requiring that the staff performing these functions are captured as Certified Staff and confirmed annually as 'Fit & Proper'; and
- Implementing and enforcing a set of Conduct Rules that reflect the core standards expected of staff.

Internal Control and Financial Reporting

Board Responsibility

The directors are ultimately responsible for the effectiveness of internal control in the CSS(E)L Group. 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 provided to external users. Such procedures are designed to mitigate and 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 the CSS(E)L Group. Such procedures for the ongoing identification, evaluation and management of the significant risks faced by the Company have been in place throughout the year and up to 28 March 2019, the date of approval of the Credit Suisse Securities (Europe) Limited Annual Report for 2018.

The Risk Appetite Statement is formally reviewed and assessed at least once a year by the Board. Key risks are also formally reviewed and assessed on a quarterly basis by the Board Risk Committee and the Board as required. In addition, key business risks are identified, evaluated and managed by operating management on an ongoing basis by means of policies and processes such as credit and market risk limits and other operational metrics, including authorisation limits, and segregation of duties.

The Board 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 well-established business planning procedures in place and reports are presented regularly to the Board detailing the

performance of each principal business unit, variances against budget, prior year and other performance data.

The Board's primary functions and types of decisions taken by the Board are:

Strategy and Management

- Set local strategy and oversee that the management of CSS(E)L is in line with the strategy of the CSG;
- Act in good faith in the best interests of CSS(E)L, exercise independent judgement and avoid conflicts of interest where possible;
- Act in accordance with the Management of Conflicts of Interest Memorandum;
- Ensure arrangements are made for CSS(E)L to fulfill statutory duties, operating within the rules and regulations of all applicable jurisdictions;
- Ensure that CS group policies applicable to CSS(E)L are in accordance with the law and with regulatory requirements/guidelines, appropriate for the entity and are being properly implemented at the entity level;
- Oversee CSS(E)L business within the overall business framework of CS group, delegating specific powers to Board Committees;
- Ensure that CSS(E)L subsidiaries, branches and representative offices are adequately controlled and governed;
- Review and approve the business strategy recommended by executive management ensuring that it does not expose CSS(E)L to unacceptable risk;
- Provide direction for and challenge to management;
- Review CSS(E)L performance and monitor the execution of business strategy;
- Ensure that CSS(E)L has adequate financial resources to meet its objectives and manage risk;
- Review material new business proposals;
- Review standard reporting, including entity financials, market and risk exposures, capital, liquidity and funding; and
- Review reports by Board Committee Chairs on material issues.

Conduct, Ethics and Culture

- Review the programmes to support an appropriate culture, conduct and behaviour in business areas relevant to CSS(E)L;
- Review the decisions made by the CSS(E)L Executive Committee relating to the registration and de-registration of Senior Managers that are not members of the Board;
- Ensure that HR policies are in accordance with legal and regulatory requirements, are appropriate, and do not expose CSS(E)L to unacceptable risk and are properly implemented;
- Support the Whistleblower Champion to review and assess the integrity, independence, effectiveness and autonomy of CSS(E)L Reportable Concern Officer / Whistleblower policies and procedures; and
- Review reports prepared by Compliance on the operation and effectiveness of whistleblowing arrangements.

Risk Management

- Review and approve the risk policies, risk appetite, framework and risk limits for CSS(E)L;
- Review CSS(E)L material credit, market, operational, conduct, and reputational risk exposures, liquidity and liability management and the capital framework to ensure the safety and soundness of operations;
- Consider the risk systems and controls to ensure a reasonable level of assurance that the appetite of risk that CSS(E)L will incur is consistent with that which the Board considers it prudent for CSS(E)L to take; and
- Review risk limits or exceptions escalated from the Board Risk Committee.

Financial Reporting and Internal Control

- Review and approve Annual Financial Statements, including the Directors' Report;
- Review and approve the annual Strategy and Plan;
- Review and approve the control frameworks for all business booked into CSS(E)L and the framework for all CSS(E)L support functions;
- Consider reports relating to entity financials including Financial Accounting, Product Control, Tax, capital, liquidity and funding, internal control, regulatory, legal or compliance matters escalated from Divisional and Board committees; and
- Consider the adequacy of management information.

Board Evaluation

Each year, the Board undertakes a formal Board Evaluation against the responsibilities listed in its Terms of Reference and the Board's annual objectives to assess Board effectiveness.

In 2017 the Board mandated an external assessor to perform an evaluation of the performance and effectiveness of the Board (conducted during 2018). The evaluation included a comprehensive review of the work of the Board, its culture and composition, and its use of time, and was conducted through interviews, observation and a review of information. Strengths included the contribution of the Board to its work, an efficient use of time, and an effective governance structure. Looking forward, the Board's future priorities included balancing short term performance and long term health, and continued oversight of corporate culture and leadership. At the beginning of 2019, the Board performed a self evaluation of its own performance in 2018. The 2018 self-assessment also concluded that the Board and Board Committees are operating effectively. The Board has approved the Board and Board Committees objectives for 2019.

Board Training

In addition to an initial Board Director Induction, Board Directors undertake internal briefings and training which are tailored to CSS(E)L business strategy, Board objectives and decisions to be taken by the Board, and individual directors undertake other external courses as necessary for professional development.

Board Diversity Policy

CSS(E)L recognises and embraces the benefits of building a diverse and inclusive culture and having a diverse board. The Board Diversity Policy sets out the approach to diversity on the Board of Directors. A diverse Board will include and make good use of differences in the skills, regional and industry experience, independence and knowledge, background, race, gender and other distinctions between Directors. The Nominations Committee will consider these attributes in determining the optimum composition of the Board and when possible will be balanced appropriately. The Board has reached its initial target of at least 25% female representation on the board and will continue to monitor the composition in 2019 through periodic reviews of structure, size and performance of the Board.

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

Board Meetings

Seven Board meetings and one Board Strategy Onsite were held in 2018. In addition, Board members attend extensive briefing sessions to prepare for technical Board discussions. All members of the Board are expected to spend the necessary time outside of these meetings to discharge their responsibilities. The Chair convenes the meetings with sufficient notice and prepares an agenda. The Chair has the discretion to invite management to attend the meetings. The Board also holds separate private sessions without management present. Minutes are kept of the Board proceedings.

Meeting Attendance

The members of the Board are encouraged to attend all Board and Committee meetings on which they serve.

	Board of Directors ¹	Audit Committee ²	Risk Committee ³	Nomination Committee ⁴	Advisory Remuneration Committee ⁵	Conflicts Committee ⁶
in 2018						
Total number of meetings held	7	7	5	5	6	4
Number of members who missed no meetings	11	3	4	2	3	3
Number of members who missed one meeting	1	-	-	1	-	-
Number of members who missed two or more meetings	-	-	-	-	1	-
Meeting attendance, in %	99	100	100	93	91	100

¹ The Board consisted of ten members at the beginning of the year and twelve members at the end of the year, with two members joined the Board.

² The Audit Committee consisted of four members at the beginning of the year and three members at the end of the year, with one member resigning.

³ The Risk Committee consisted of four members at the beginning and the end of the year.

⁴ The Nomination Committee consisted of three members at the beginning and the end of the year.

⁵ The Advisory Remuneration Committee consisted of three members at the beginning of the year and four members at the end of the year.

⁶ The Conflicts Committee consisted of three members at the beginning and the end of the year.

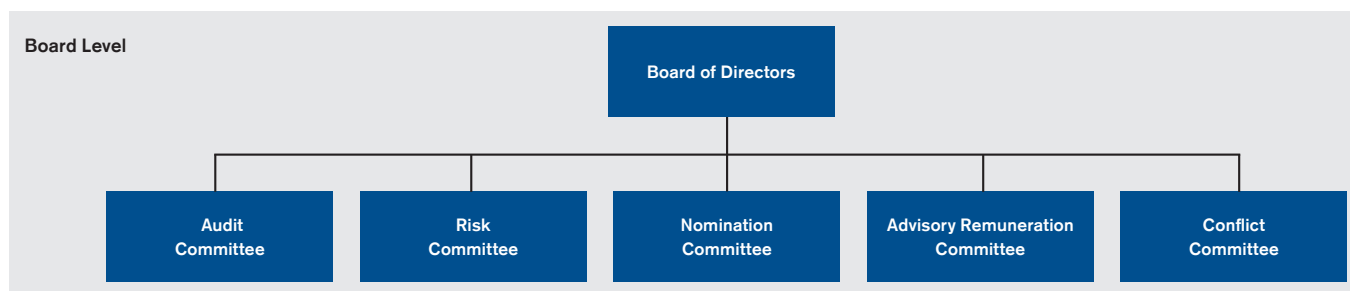
Committees

Board committees overview

Certain responsibilities are delegated to Board Committees, which assist the Board in carrying out its functions and ensure

that there is independent oversight. The Chair of each Board Committee reports to the Board.

Summary of Key Governance Committees



Audit Committee

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

- assessing the overall integrity of the financial statements and disclosures;
- reporting to the Board on the outcome of the statutory audit and explaining how the statutory audit contributed to the integrity of financial reporting;
- monitoring the adequacy and integrity of the financial accounting process and the effectiveness of internal quality controls;
- monitoring relevant processes to ensure compliance with legal requirements;
- assessing the effectiveness of internal controls that go beyond the area of financial reporting;
- being responsible for contributing to the procedure for the selection of the External Auditors and recommending the External Auditors to be appointed;
- monitoring the qualifications, independence and performance of the External Auditors including the suitability of the External Auditors' provision of any non-audit services to CSS(E)L;
- monitoring the statutory audit of CSS(E)L financial statements, in particular its performance, taking into account any findings and conclusions by the competent authority; and
- reviewing the independence, integrity and adequacy of resourcing, and overseeing the performance of Internal Audit Department, in particular its implementation of an audit plan to examine and evaluate the adequacy and effectiveness of systems, internal control and arrangements.

In reviewing the Credit Suisse Securities (Europe) Ltd Annual Report 2018, the Audit Committee considered critical accounting estimates and judgements including the valuation of Level 3 assets and liabilities and the recoverability of deferred tax asset.

The Audit Committee additionally considered the projected capital requirements in the next 12 months and, in this context, the continued access to appropriated funding to maintain adequate capital and liquidity positions.

The Audit Committee members are Alison Halsey (Chair), John Devine and Robert Endersby.

Risk Committee

The Risk Committee's primary function is to assist the Board in fulfilling its risk management responsibilities as defined by applicable law and regulations, articles and internal regulations, by:

- providing advice to the Board on overall risk appetite and assisting the Board in overseeing the implementation of that strategy by management;
- reviewing and approving the strategies and policies for taking up, managing, monitoring and mitigating the risks CSS(E)L is or might be exposed to, including those posed by the macro-economic environment in which it operates in relation to the status of the business cycle;
- reviewing the independence, integrity and adequacy of resourcing, and overseeing the performance of the risk management function in particular as it relates to market, credit, and liquidity and funding risks and non-financial risks such as legal, strategic and business risks; and group risk;
- reviewing and assessing the independence, integrity and adequacy of resourcing, and overseeing the performance of the compliance function including processes and organisational structures to detect and monitor any risk of failure to comply with applicable regulatory requirements or that CSS(E)L may be used to further financial crime;
- reviewing the adequacy of CSS(E)L capital and its allocation to businesses;
- reviewing risk limits and regular risk reports including Risk Appetite and making recommendations to the Board;

- reviewing the Internal Capital Adequacy Assessment Process ('ICAAP') and providing input into the range of scenarios and analyses that management should consider;
- reviewing the adequacy of the management of reputational risks;
- reviewing the adequacy of the management of operational risks; and
- reviewing and assessing the independence, integrity and adequacy of resourcing, and overseeing the performance, of the compliance function.

The Risk Committee members are Robert Endersby (Chair), Noreen Doyle, Andreas Gottschling (from 1 January 2018) and Alison Halsey.

Nomination Committee

The duties of the Nomination Committee are to:

- engage a broad set of qualities and competencies when recruiting members to the Board and put in place a policy promoting diversity on the Board;
- identify and recommend for approval, by the Company shareholder, candidates to fill Board vacancies, having evaluated the balance of knowledge, skills, diversity and experience of the Board;
- make recommendations to the Board concerning the Chair and member of the Board committees;
- prepare a description of the roles for a particular appointment, and assess the time commitment required;
- decide on a target for the representation of the under-represented gender in the Board and prepare a policy on how to increase the under-represented gender to meet that target;
- periodically assess the structure, size, composition and performance of the Board and make recommendations to the Board with regard to any changes;
- periodically assess the knowledge, skills and experience of individual members of the Board, and report this to the Board;
- periodically review the policy of the Board for selection and appointment of senior management and make recommendations to the Board;
- recommend to the Board the appointment and removal of Chief Executive Officer and Chief Financial Officer;
- periodically review the Board and Senior Management strategy for leadership development, talent identification, retention, and

diversity and specifically approve the Board Succession Plan; and

- take account of the need to ensure that the Board's decision making is not dominated by any one individual or small group of individuals in a manner that is detrimental to the interest of the Bank as a whole.

The Nomination Committee members are Noreen Doyle (Chair), John Devine and Alison Halsey. It complies with the requirements defined in the PRA handbook for 'General Organisational Requirements', chapter 6 (Nomination committee).

Advisory Remuneration Committee

The purpose of the Advisory Remuneration Committee is to advise the CSG Compensation Committee in respect of matters relating to remuneration for the employees of CSS(E)L Group, in particular members of the CSS(E)L Executive Committee, Code Staff and Material Risk Takers.

Consistent with the requirements of the PRA Remuneration Code, the Company has broadened the 'Malus clause' which is applicable to Code Staff, UK Managing Directors and certain other identified employees to comply with UK regulations.

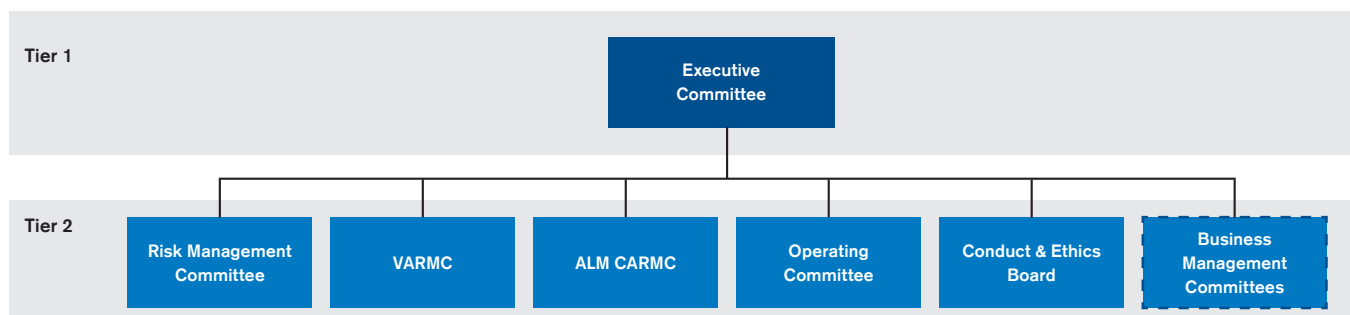
The Advisory Remuneration Committee members are Noreen Doyle (Chair), Alison Halsey (from 15 June 2018), Robert Endersby and Andreas Gottschling (from 1 January 2018).

Conflicts Committee

The purpose of the Conflicts Committee is to assist the Board and Board Committees to manage conflicts of interest and where they arise to manage the conflicts. Committee duties are to conduct an annual assessment of the Board conflicts governance process and effectiveness of the Conflicts Management Framework and to confirm to the Board that the Framework remains fit for purpose. The Committee concluded that the Framework operated effectively in 2018. Duties are also to consider conflicts declared through the Conflicts Register including role conflicts and to review conflicts induction training received by Board Directors. The Conflicts Committee consists of three independent Non-executive Directors, Alison Halsey, (Chair), John Devine and Robert Endersby.

Management committees overview

Tier 1 and Tier 2 committees support the Board.



Tier 1 comprises a single management committee, the CSS(E)L Executive Committee ('ExCo'). It is chaired by the CEO, and members include the Deputy CEO, CFO, CRO, Head of Internal Audit, Chief Compliance Officer ('CCO'), Business Heads and other Support Head Senior Managers. The Deputy CEO, deputises as Chair when necessary.

The purpose of the ExCo is to support the CEO, in the day-to-day management of CSS(E)L and, in particular, in the delivery of the strategy agreed by the Board. The EXCo facilitates the decision-making process which impacts all aspects of CSS(E)L including: culture, strategy, revenue, reporting, policy, regulatory compliance, risk and control, costs and people. The ExCo is also responsible for identifying and escalating issues to the Board or relevant Board committees for review, recommendation and/or approval as necessary.

Given the breadth of business activities and multiple areas of focus, the ExCo has an established support structure it has delegated particular aspects of its mandate to Tier 2 committees, which have a more focused mandate. These Tier 2 committees are chaired by members of the ExCo and are all accountable to the ExCo. The ExCo has also adopted certain Business Management Committees with reporting requirements into the ExCo in relation to the activities of CSS(E)L.

Risk Management Committee ('RMC')

The RMC is chaired by the CRO of CSS(E)L, the RMC is delegated authority from the ExCo to establish more granular limits within the bounds of CSS(E)L's overall risk limits and risk appetite. Its purpose is to:

- i ensure that proper standards for risk oversight and management are in place;
- ii make recommendations to the Board on risk appetite;

- iii review and challenge the Internal Capital Adequacy Assessment Process ('ICAAP') and the Individual Liquidity Adequacy Assessment Process ('ILAAP') and make recommendations to the CSS(E)L Board;
- iv define and establish risk limits for both individual businesses and at the portfolio level within authorities delegated by the Board; and
- v review and implement appropriate controls over remote booking risk relating to CSS(E)L.

Valuation Risk Management Committee ('VARMC')

VARMC is the most senior decision making forum for valuation issues in CSS(E)L, and is run as a sub-committee of CSG VARMC. Its purpose is to:

- i review, challenge and ratify/modify conclusions from Inventory Valuation Reviews; and
- ii direct resolution of significant inventory valuation issues. It also establishes non-actionable variance thresholds (both positive and negative) that are to be monitored on a monthly basis.

Asset and Liability Management & Capital Allocation and Risk Management Committee ('ALM & CARMC')

The ALM and CARMC is chaired by the CFO. It is responsible for assisting the Board in providing a robust governance and oversight function with respect to capital, liquidity and balance sheet management in relation to CSS(E)L. Its purpose is to:

- i monitor and challenge the capital and liquidity positions of CSS(E)L against internal and external regulatory limits;
- ii monitor and challenge the systems and controls related to the ALM management framework for CSS(E)L;
- iii manage CSS(E)L's leverage ratio; and
- iv assessing escalated items from subcommittees, which include Capital Governance Board, Pension Committee and Recovery and Resolution Planning Committee.

Operating Committee ('OpCo')

The OpCo is chaired by the Deputy CEO, and, provides a forum for the effective management of operational and control matters across the business areas and central functions, including the projects portfolio, on a front-to-back basis. Its purpose is to:

- i ensure effective performance and control of business areas and central functions;
- ii ensure resolution of Audit points and compliance with regulatory requirements, including compliance with the Client Assets Sourcebook ('CASS') regime;
- iii ensure the policy framework is fit for purpose, including the adoption of new policies, as appropriate;
- iv provide oversight over operational activities including remote booking activity, outsourcing activities and the governance of the legal entity branch, subsidiary and representation office network; and
- v provide oversight over projects, management initiatives and new business activities.

Conduct & Ethics Board ('CEB')

The CEB is chaired by the CEO, and is run as a sub-committee of the CS group CEB. Its purpose is to:

- i establish, run and monitor a structured approach to embed an appropriate culture in on behalf of the CSS(E)L Board and Chair;
- ii support the Divisions and Functions to embed the Conduct and Ethics Standards, ensuring a coordinated and appropriate approach in CSS(E)L;
- iii implement and embed the governance framework mandated by the CS group CEB, ensuring coordination with Divisional/Corporate Functions CEBs;
- iv review disciplinary cases and provide feedback to those responsible for disciplinary decisions for future reference; and
- v ensure compliance with local regulation and statutory requirements.

Business Management Committees ('BMC')

Divisional CEOs have established management committee structures to undertake the management of divisional operations. Certain of these committees have a key role to play in UK governance, with reporting requirements into the ExCo in relation to the activities of CSS(E)L. The ExCo establishes governance requirements appropriate to its UK specific remit and agrees with the relevant committee procedures for the ongoing management of, and reporting against, these requirements. The following divisional committees are responsible for identifying issues relevant to those requirements, for escalation to the ExCo:

- i GM, Credit and GM Client Strategy and Key Account Management Governance Committee;
- ii GM Equities and International Trading Solutions ('ITS'), Equity Derivatives & Investor Products Governance Committee;
- iii ITS Fixed Income & Wealth Management Products Management Oversight Committee;
- iv IBCM EMEA Management Committee;
- v ARU, Global Liquidity Group ('GLG') and Valuations Adjustments ('XVA') UK Investment Banking ('IB') Senior Manager Committee; and
- vi APAC UK IB Senior Manager Committee

By Order of the Board



Paul E Hare
Company Secretary

One Cabot Square
London E14 4QJ
28 March 2019

Directors' Report for the year ended 31 December 2018

International Financial Reporting Standards

The CSS(E)L Group and Company 2018 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 28 March 2019.

Dividends

No dividends were paid or are proposed for the year ended 31 December 2018 (2017: USD Nil).

Directors

The names of the directors as at the date of this report are set out on page 1. Changes in the directorate since 31 December 2017 and up to the date of this report are as follows:

Appointment

Andreas Gottschling
Nicola Kane

1 January 2018
7 June 2018

None of the directors who held office at the end of the financial year were directly beneficially interested, at any time during the year, in the shares of the Company. Directors of the Company benefitted from qualifying third party indemnity provisions in place during the financial year and at the date of this report.

Statement of Directors' Responsibilities

The Directors are responsible for preparing the Annual Report, Strategic Report, the Directors' Report and the CSS(E)L Group and Company financial statements in accordance with applicable law and regulations.

Company law requires the directors to prepare the CSS(E)L Group and Company financial statements for each financial year. Under that law they have elected to prepare both the CSS(E)L Group and Company financial statements in accordance with IFRS as adopted by the EU and applicable law and have elected to prepare the Company financial statements on the same basis.

Under company law the Directors must not approve the Group and Company financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the CSS(E)L Group and Company and of their profit or loss for that period. In preparing each of the CSS(E)L Group and Company financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable, relevant and reliable;
- state whether they have been prepared in accordance with IFRSs as adopted by the EU; and
- assess the CSS(E)L Group and Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern; and
- use the going concern basis of accounting unless they either intend to liquidate the CSS(E)L Group or Company to cease operations, or have no realistic alternative but to do so.

The Directors are responsible for keeping adequate accounting records that are sufficient to show and explain the CSS(E)L Group and Company's transactions and disclose with reasonable accuracy at any time the financial position of the CSS(E)L Group and Company and enable them to ensure that its Group and Company financial statements comply with the Companies Act 2006. They are responsible for such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error, and have general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the group and to prevent and detect fraud and other irregularities.

Under applicable law and regulations, the Directors are also responsible for preparing a Strategic Report, Directors' Report, and Corporate Governance Statement that complies with that law and those regulations.

The Directors are responsible for the maintenance and integrity of the corporate and financial information included on the CSS(E)L Group and Company's website. Legislation in the UK governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

The Directors confirm that to the best of their knowledge:

- the financial statements, prepared in accordance with applicable set of accounting standards, give a true and fair view of the assets, liabilities, financial position and profit or loss of the CSS(E)L group and the undertakings included in the consolidation taken as a whole; and
- the Strategic Report includes a fair review of the development and performance of the business and the position of CSS(E)L and the undertakings included in the consolidation taken as a whole, together with a description of the principal risks and uncertainties faced.

Risk and Capital

The way in which these risks are managed is detailed in the Strategic Report, and the risks are detailed in Note 42 – Financial Risk Management.

Changes made to the capital structure are set out in Note 30 – Share Capital and Share Premium.

Further Developments and Employees

Further developments impacting the Company and information in relation to employees is detailed in the Strategic Report.

Research and Development

In the ordinary course of business, the Company develops new products and services in each of its business divisions.

Branches and Representative Offices

The details of the location of the Company's branches and representative offices are detailed in the Business Model section of the Strategic Report.

Disclosure of Information to Auditor

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

Donations

During the year the CSS(E)L Group made USD 184,669 (2017: USD 153,121) of charitable donations. There were no political donations made by the CSS(E)L Group during the year (2017: USD Nil).

Auditor

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

In view of EU rules with respect to mandatory auditor rotation for certain of CSG significant subsidiaries, the CSG Audit Committee has decided to pursue a rotation of the CSG auditor.

A tender of the CSG audit mandate was conducted in the second half of 2018. All critical aspects of the tender, including the selection of audit firms to invite, the nature and extent of information sharing with the participating firms, as well as the evaluation criteria and process, were determined by the CSG Audit Committee in consultation with the Audit Committee of CSS(E)L, at the outset of the tender and subject to CSG Audit Committee oversight during execution. The CSS(E)L Audit Committee was consulted at each stage and contributed to the process.

A structured approach to evaluating the participating firms' proposals was followed using a robust and objective set of assessment criteria that was shared with participating audit firms at the outset of the tendering process to provide transparency over how they would be evaluated.

At the conclusion of its evaluation, the CSG Audit Committee recommended to the CSG Board of Directors, and the CSG Board of Directors approved, that PricewaterhouseCoopers AG be proposed as the new statutory auditor to the CSG Annual General Meeting in April 2020. The CSS(E)L Audit Committee also recommended that PricewaterhouseCoopers LLP be proposed as the new statutory auditor. The appointment is proposed to be effective for the fiscal year ending 31 December, 2020 and is subject to CSG shareholder approval.

By Order of the Board



Caroline Waddington
Director

One Cabot Square
London E14 4QJ
28 March 2019

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

Opinion

We have audited the financial statements of Credit Suisse Securities (Europe) Limited ("the Group and Company") for the year ended 31 December 2018 which comprise Consolidated and Company Statements of Financial Position as at 31 December 2018, and the Consolidated Statement of Income, Consolidated Statement of Comprehensive Income, the Consolidated and Company Statements of Changes in Equity and the Consolidated and Company Statements of Cash Flows for the year then ended, and notes to the financial statements, including the significant accounting policies set out in note 2.

In our opinion:

- the financial statements give a true and fair view of the state of the Group's and of the Company's affairs as at 31 December 2018 and of the CSS(E)L Group's loss for the year then ended;
- the CSS(E)L Group financial statements have been properly prepared in accordance with International Financial Reporting Standards as adopted by the European Union (IFRSs as adopted by the EU)
- the Company financial statements have been properly prepared in accordance with IFRSs as adopted by the EU and as applied in accordance with the provisions of the Companies Act 2006; and
- the financial statements have been prepared in accordance with the requirements of the Companies Act 2006.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) ("ISAs (UK)") and applicable law. Our responsibilities are described below. We have fulfilled our ethical responsibilities under, and are independent of the group in accordance with, UK ethical requirements including the FRC Ethical Standard. We believe that the audit evidence we have obtained is a sufficient and appropriate basis for our opinion.

The impact of uncertainties due to the UK exiting the European Union on our audit

Uncertainties related to the effects of the EU Exit are relevant to understanding our audit of the financial statements. All audits assess and challenge the reasonableness of estimates made by the directors, such as valuation of financial instruments and recoverability of deferred tax assets and related disclosures and the appropriateness of the going concern basis of preparation of the financial statements. All of these depend on assessments of the future economic environment and the Group's future prospects and performance.

The EU Exit is one of the most significant economic events for the UK, and at the date of this report its effects are subject to unprecedented levels of uncertainty of outcomes, with the full range of possible effects unknown. We applied a standardised firm-wide approach in response to that uncertainty when assessing the Group's future prospects and performance. However, no audit should be expected to predict the unknowable factors or all possible future implications for a company and this is particularly the case in relation to the EU Exit.

Going concern

The directors have prepared the financial statements on the going concern basis as they do not intend to liquidate the Group or the Company or to cease their operations, and as they have concluded that the group and the company's financial position means that this is realistic. They have also concluded that there are no material uncertainties that could have cast significant doubt over their ability to continue as a going concern for at least a year from the date of approval of the financial statements ("the going concern period").

We are required to report to you if we have concluded that the use of the going concern basis of accounting is inappropriate or there is an undisclosed material uncertainty that may cast significant doubt over the use of that basis for a period of at least a year from the date of approval of the financial statements. In our evaluation of the directors' conclusions, we considered the inherent risks to the Group's business model, including the impact of the EU Exit, and analysed how those risks might affect the Group and Company's financial resources or ability to continue operations over the going concern period. We have nothing to report in these respects.

However, as we cannot predict all future events or conditions and as subsequent events may result in outcomes that are inconsistent with judgements that were reasonable at the time they were made, the absence of reference to a material uncertainty in this auditor's report is not a guarantee that the group or the company will continue in operation.

Strategic Report and Directors' Report

The Directors are responsible for the Strategic Report and the Directors' Report. Our opinion on the financial statements does not cover those reports and we do not express an audit opinion thereon.

Our responsibility is to read the Strategic Report and the Directors' report and, in doing so, consider whether, based on our financial statements audit work, the information therein is materially misstated or inconsistent with the financial statements or our audit knowledge. Based solely on that work:

- we have not identified material misstatements in the Strategic Report and the Directors' report;
- in our opinion the information given in those reports for the financial year is consistent with the financial statements; and

- in our opinion those reports have been prepared in accordance with the Companies Act 2006.

Matters on which we are required to report by exception

Under the Companies Act 2006, we are required to report to you if, in our opinion:

- adequate accounting records have not been kept by the Company, or returns adequate for our audit have not been received from branches not visited by us; or
- the Company 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.

We have nothing to report in these respects.

Directors' responsibilities

As explained more fully in their statement set out on page 32, the Directors are responsible for: the preparation of the financial statements and for being satisfied that they give a true and fair view; such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error; assessing the Group and Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern; and using the going concern basis of accounting unless they either intend to liquidate the Group or Company or to cease operations, or have no realistic alternative but to do so.

Auditor's responsibilities

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material

misstatement, whether due to fraud or error, and to issue our opinion in an auditor's report. Reasonable assurance is a high level of assurance, but does not guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements.

→ A fuller description of our responsibilities is provided on the FRC's website at: www.frc.org.uk/auditorsresponsibilities

The purpose of our audit work and to whom we owe our responsibilities

This report is made solely to the Company'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 Company'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 Company and the Company's members, as a body, for our audit work, for this report, or for the opinions we have formed.



Richard Faulkner
(Senior Statutory Auditor)

for and on behalf of KPMG LLP, Statutory Auditor
Chartered Accountants
15 Canada Square
London
E14 5GL
28 March 2019

Financial Statements for the year ended 31 December 2018

Consolidated Statement of Income for the Year ended 31 December 2018

	Reference to note	2018	2017
Consolidated Statement of Income (USD million)			
Continuing Operations			
Interest income	4	1,332	1,115
- of which Interest income from instruments at amortised cost		790	667 ¹
Interest expense	4	(1,474)	(1,271)
- of which Interest expense on instruments at amortised cost		(1,014)	(971) ¹
Net interest expense		(142)	(156)
Commission and fee income	5	443	666
Commission and fee expense	5	-	(148)
Net commission and fee income		443	518
Release of provision for credit losses	7	3	-
Net gains from financial assets/liabilities at fair value through profit or loss	8	819	672
Other revenues/(expenses)	9	136	(61)
Net revenues		1,259	973
Compensation and benefits	10	(268)	(520)
General, administrative and trading expenses	11	(1,028)	(906)
Restructuring expenses	12	(28)	(34)
Total operating expenses		(1,324)	(1,460)
Loss before taxes from continuing operations		(65)	(487)
Income tax expense from continuing operations	13	(60)	(11)
Loss after taxes from continuing operations		(125)	(498)
Discontinued Operations			
Profit before tax from discontinued operations	28	15	96
Income tax expense from discontinued operations	13,28	(3)	(47)
Profit after taxes from discontinued operations		12	49
Net loss attributable to Credit Suisse Securities (Europe) Limited shareholders		(113)	(449)

¹ 2017 numbers have been restated to conform to the current year's presentation.

Consolidated Statement of Comprehensive Income for the Year ended 31 December 2018

CSS(E)L Group	2018	2017
Consolidated Statement of Comprehensive Income (USD million)		
Net loss	(113)	(449)
Re-measurement of net defined benefit asset	(20)	(10)
Total items that will not be reclassified to net income	(20)	(10)
Foreign currency translation	(23)	76
Net investment hedge – net gain/(loss)	22	(57)
Cash flow hedges – effective portion of changes in fair value	(1)	-
Net gain on available for sale securities taken to equity	-	10
Total items that may be reclassified to net income	(2)	29
Other comprehensive (loss)/income, net of tax	(22)	19
Total comprehensive loss	(135)	(430)
Attributable to Credit Suisse Securities (Europe) Limited shareholders	(135)	(430)

Refer to Note 29 Accumulated Other Comprehensive Income for details.

The Company's loss after tax was USD 113 million for the year ended 31 December 2018 (2017: Loss USD 449 million). As permitted by s408 of the Companies Act 2006, no separate income statement is presented in respect of the Company.

The notes on pages 44 to 176 form an integral part of the Financial Statements.

Consolidated Statement of Financial Position as at 31 December 2018

	Reference to note	2018	end of 2017 ¹
Assets (USD million)			
Cash and due from banks		2,615	2,662
Interest bearing deposits with banks		7,421	20,272
Securities purchased under resale agreements and securities borrowing transactions	15	16,272	22,725
Trading financial assets mandatorily at fair value through profit or loss	16	19,645	23,132
of which positive market values from derivative instruments	16	5,307	3,956
Non-trading financial assets mandatorily at fair value through profit or loss	17	37,537	na ²
Financial assets designated at fair value through profit or loss	18	–	25,272
Financial assets available-for-sale	19	na ⁴	39
Current tax assets		116	179
Deferred tax assets	14	8	10
Other assets	20	10,069	8,049
Property and equipment	22	1	1
Intangible assets	23	1	1
Assets held for sale	28	1,847	21,440
Total assets		95,532	123,782
Liabilities (USD million)			
Deposits	24	262	62
Securities sold under repurchase agreements and securities lending transactions	15	6,045	14,268
Trading financial liabilities mandatorily at fair value through profit or loss	16	17,841	12,616
of which negative market values from derivative instruments	16	5,589	4,185
Financial liabilities designated at fair value through profit or loss	18	29,296	28,456
Borrowings	25	2,832	5,512 ³
Current tax liabilities		17	30
Deferred tax liabilities	14	145	127
Other liabilities	20	14,615	17,420
Provisions	26	1	2
Debt in issuance	27	12,837	21,683 ³
Liabilities held for sale	28	4,056	15,884
Total liabilities		87,947	116,060
Shareholders' equity (USD million)			
Share capital	30	3,859	3,859
Share premium	30	–	5,661
Capital contribution		–	5,685
Retained earnings		3,792	(7,474)
Accumulated other comprehensive income	29	(66)	(9)
Total shareholders' equity		7,585	7,722
Total liabilities and shareholders' equity		95,532	123,782

¹ The CSS(E)L Group has initially applied IFRS 15 and IFRS 9 at 1 January 2018. Under the transition methods chosen, comparative information is not restated.

² na – not applicable. These financial statements captions or disclosures apply under IFRS 9 adopted in the current year, and were not applicable under IAS 39 "Financial Instruments".

³ Short term borrowings and Long term debt were renamed to Borrowings and Debt in issuance respectively to better describe the financial instruments under these headings.

⁴ na – not applicable. Financial assets available for sale category is no longer applicable under IFRS 9.

Approved by the Board of Directors on 28 March 2019 and
signed on its behalf by:



Caroline Waddington
Director

The notes on pages 44 to 176 form an integral part of the Financial Statements.

Company Statement of Financial Position as at 31 December 2018

	Reference to note	2018	end of 2017 ¹
Assets (USD million)			
Cash and due from banks		2,604	2,640
Interest bearing deposits with banks		7,421	20,272
Securities purchased under resale agreements and securities borrowing transactions	15	16,272	22,725
Trading financial assets mandatorily at fair value through profit or loss	16	19,651	23,143
of which positive market values from derivative instruments	16	5,313	3,967
Non-trading financial assets mandatorily at fair value through profit or loss	17	37,516	na ²
Financial assets designated at fair value through profit or loss	18	–	25,214
Financial assets available-for-sale	19	na ⁴	39
Current tax assets		116	179
Deferred tax assets	14	8	10
Other assets	20	10,054	8,061
Property and equipment	22	1	1
Intangible assets	23	1	1
Assets held for sale	28	1,847	21,440
Total assets		95,491	123,725
Liabilities (USD million)			
Deposits	24	262	62
Securities sold under repurchase agreements and securities lending transactions	15	6,045	14,268
Trading financial liabilities mandatorily at fair value through profit or loss	16	17,828	12,587
of which negative market values from derivative instruments	16	5,576	4,156
Financial liabilities designated at fair value through profit or loss	18	29,277	28,446
Borrowings	25	2,832	5,512 ³
Current tax liabilities		17	30
Deferred tax liabilities	14	145	127
Other liabilities	20	14,610	17,406
Provisions	26	1	2
Debt in issuance	27	12,837	21,683 ³
Liabilities held for sale	28	4,056	15,884
Total liabilities		87,910	116,007
Shareholders' equity			
Share capital	30	3,859	3,859
Share premium	30	–	5,661
Capital contribution		–	5,685
Retained earnings		3,788	(7,478)
Accumulated other comprehensive income	29	(66)	(9)
Total shareholders' equity		7,581	7,718
Total liabilities and shareholders' equity		95,491	123,725

¹ The Company has initially applied IFRS 15 and IFRS 9 at 1 January 2018. Under the transition methods chosen, comparative information is not restated.

² na – not applicable. These financial statements captions or disclosures apply under IFRS 9 adopted in the current year, and were not applicable under IAS 39 "Financial Instruments".

³ Short term borrowings and Long term debt were renamed to Borrowings and Debt in issuance respectively to better describe the financial instruments under these headings.

⁴ na – not applicable. Financial assets available for sale category is no longer applicable under IFRS 9.

Approved by the Board of Directors on 28 March 2019 and
signed on its behalf by:



Caroline Waddington
Director

The notes on pages 44 to 176 form an integral part of the Financial Statements.

Consolidated Statement of Changes in Equity for the year ended 31 December 2018

	Share Capital	Share Premium	Capital contribution	Retained earnings	AOCI ¹	Total share- holders' equity ³
2018 Consolidated statement of changes in equity (USD million)						
Balance at 1 January 2018	3,859	5,661	5,685	(7,474)	(9)	7,722
Adjustment on initial application of IFRS 15 (net of tax)	–	–	–	–	–	–
Adjustment on initial application of IFRS 9 (net of tax)	–	–	–	33	(35)	(2)
Adjusted balance at 1 January 2018	3,859	5,661	5,685	(7,441)	(44)	7,720
Foreign exchange translation differences	–	–	–	–	(23)	(23)
Net gain on hedges of net investments in foreign entities taken to equity	–	–	–	–	22	22
Cash flow hedges – effective portion of changes in fair value	–	–	–	–	(1)	(1)
Re-measurement of defined benefit asset	–	–	–	–	(20) ²	(20)
Net gain on available for sale securities taken to equity	–	–	–	–	–	–
Net loss recognised directly in retained earnings and AOCI	–	–	–	–	(22)	(22)
Net loss for the year	–	–	–	(113)	–	(113)
Total comprehensive loss recognised for the year	–	–	–	(113)	(22)	(135)
Reduction of share capital	–	–	(5,685)	5,685	–	–
Share premium reclassification to retained earnings	–	(5,661)	–	5,661	–	–
Balance at 31 December 2018	3,859	–	–	3,792	(66)	7,585
2017 Consolidated statement of changes in equity (USD million)						
Balance at 1 January 2017	3,859	5,661	5,662	(7,025)	(28)	8,129
Foreign exchange translation differences	–	–	–	–	76	76
Net gain on hedges of net investments in foreign entities taken to equity	–	–	–	–	(57)	(57)
Cash flow hedges – effective portion of changes in fair value	–	–	–	–	–	–
Re-measurement of defined benefit asset	–	–	–	–	(10) ²	(10)
Net gain on available for sale securities taken to equity	–	–	–	–	10	10
Net loss recognised directly in retained earnings and AOCI	–	–	–	–	19	19
Net loss for the year	–	–	–	(449)	–	(449)
Total comprehensive loss recognised for the year	–	–	–	(449)	19	(430)
Gain from sale of business to a common controlled entity	–	–	23	–	–	23
Balance at 31 December 2017	3,859	5,661	5,685	(7,474)	(9)	7,722

¹ AOCI refers to Accumulated Other Comprehensive Income.

² Disclosed net of tax.

³ The CSS(E)L Group has initially applied IFRS 15 and IFRS 9 at 1 January 2018. Under the transition methods chosen, comparative information is not restated.

The notes on pages 44 to 176 form an integral part of the Financial Statements.

Company Statement of Changes in Equity for the year ended 31 December 2018

	Share Capital	Share Premium	Capital contribution	Retained earnings	AOCI ¹	Total share- holders' equity ³
2018 Company statement of changes in equity (USD million)						
Balance at 1 January 2018	3,859	5,661	5,685	(7,478)	(9)	7,718
Adjustment on initial application of IFRS 15 (net of tax)	–	–	–	–	–	–
Adjustment on initial application of IFRS 9 (net of tax)	–	–	–	33	(35)	(2)
Adjusted balance at 1 January 2018	3,859	5,661	5,685	(7,445)	(44)	7,716
Foreign exchange translation differences	–	–	–	–	(23)	(23)
Net gain on hedges of net investments in foreign entities taken to equity	–	–	–	–	22	22
Cash flow hedges – effective portion of changes in fair value	–	–	–	–	(1)	(1)
Re-measurement of defined benefit asset	–	–	–	–	(20) ²	(20)
Net gain on available for sale securities taken to equity	–	–	–	–	–	–
Net loss recognised directly in retained earnings and AOCI	–	–	–	–	(22)	(22)
Net loss for the year	–	–	–	(113)	–	(113)
Total comprehensive loss recognised for the year	–	–	–	(113)	(22)	(135)
Reduction of share capital	–	–	(5,685)	5,685	–	–
Share premium reclassification to retained earnings	–	(5,661)	–	5,661	–	–
Balance at 31 December 2018	3,859	–	–	3,788	(66)	7,581
2017 Company statement of changes in equity (USD million)						
Balance at 1 January 2017	3,859	5,661	5,662	(7,029)	(28)	8,125
Foreign exchange translation differences	–	–	–	–	76	76
Net gain on hedges of net investments in foreign entities taken to equity	–	–	–	–	(57)	(57)
Cash flow hedges – effective portion of changes in fair value	–	–	–	–	–	–
Re-measurement of defined benefit asset	–	–	–	–	(10) ²	(10)
Net gain on available for sale securities taken to equity	–	–	–	–	10	10
Net loss recognised directly in retained earnings and AOCI	–	–	–	–	19	19
Net loss for the year	–	–	–	(449)	–	(449)
Total comprehensive loss recognised for the year	–	–	–	(449)	19	(430)
Increase in Capital Contribution from sale of business to a common control entity	–	–	23	–	–	23
Balance at 31 December 2017	3,859	5,661	5,685	(7,478)	(9)	7,718

¹ AOCI refers to Accumulated Other Comprehensive Income.

² Disclosed net of tax.

³ The Company has initially applied IFRS 15 and IFRS 9 at 1 January 2018. Under the transition methods chosen, comparative information is not restated.

The notes on pages 44 to 176 form an integral part of the Financial Statements.

Consolidated Statement of Cash Flows for the year ended 31 December 2018

	Reference to notes	2018 ¹	2017 ¹
Cash flows from operating activities (USD million)			
Loss before tax for the period		(50)	(391)
Adjustments to reconcile net profit to net cash used in operating activities			
Non-cash items included in net profit/(loss) before tax and other adjustments:			
Impairment, depreciation and amortisation	22,23	–	1
Pension plan charge	32	(7)	(17)
Foreign exchange (gains)/losses		(222)	510
Accrued interest on debt in issuance		246	387
Share-based payment expense		3	(106)
Cash (used)/generated before changes in operating assets and liabilities		(30)	384
Net decrease/(increase) in operating assets:			
Interest bearing deposits with banks		12,851	(11,509)
Securities purchased under resale agreements and securities borrowing transactions	15,28	15,376	7,891
Trading financial assets mandatorily at fair value through profit or loss	16,28	9,300	2,711
Financial assets designated at fair value through profit or loss	18	25,272	(1,659)
Non-Trading financial assets mandatorily at fair value through profit or loss		(37,498)	n/a
Other assets		2,772	(2,633)
Net decrease/(increase) in operating assets:		28,073	(5,199)
Net (decrease) / increase in operating liabilities:			
Securities sold under repurchase agreements and securities lending transactions	15,28	(11,961)	6,315
Borrowings	25	(2,680)	1,845
Trading financial liabilities mandatorily at fair value through profit or loss	16,28	(1,293)	(1,140)
Financial liabilities designated at fair value through profit or loss	18,28	731	4,270
Accrued expenses and other liabilities		(4,534)	(3,249)
Provisions	26	(1)	(4)
Net (decrease) / increase in operating liabilities:		(19,738)	8,037
Net cash from operating activities		8,311	3,220
Cash flows from investing activities (USD million)			
Proceeds from financial assets available-for-sale	19	–	8
Proceeds from sale of premises, equipment and intangible assets	22,23	120	151
Capital expenditure for property, equipment and intangible assets	22,23	(120)	(152)
Net cash from investing activities		–	7
Cash flows from financing activities (USD million)			
Issuance of debt (including debt in issuance at fair value through profit or loss)	27	10,712	10,282
Repayment of debt in issuance	27	(19,164)	(14,158)
Increase in capital contribution due to sale of business to common control entity		–	23
Net cash used in financing activities		(8,452)	(3,853)
Net decrease in cash and cash equivalents		(141)	(626)
Cash and cash equivalents at beginning of period		2,600	3,018
Effect of exchange rate fluctuations on cash and cash equivalents held		(106)	208
Cash and cash equivalents at end of period		2,353	2,600
Cash and due from banks		2,615	2,662
Deposits	24	(262)	(62)
Cash and cash equivalents at end of period		2,353	2,600

¹ The CSS(EL) Group has elected to present a statement of cash flows that analyses all cash flows in total – i.e. including both continuing and discontinued operations; amounts related to discontinued operations are disclosed in Note 28. 2017 numbers have been restated to conform to the current year's presentation

The notes on pages 44 to 176 form an integral part of the Financial Statements.

Company Statement of Cash Flows for the year ended 31 December 2018

	Reference to notes	2018 ¹	2017 ¹
Cash flows from operating activities (USD million)			
Loss before tax for the period		(50)	(391)
Adjustments to reconcile net profit to net cash used in operating activities			
Non-cash items included in net profit/(loss) before tax and other adjustments:			
Impairment, depreciation and amortisation	22,23	–	1
Pension plan charge	32	(7)	(17)
Foreign exchange (gains) / losses		(222)	510
Accrued interest on debt in issuance		246	387
Share-based payment expense		3	(106)
Cash (used)/generated before changes in operating assets and liabilities		(30)	384
Net decrease/(increase) in operating assets:			
Interest bearing deposits with banks		12,851	(11,509)
Securities purchased under resale agreements and securities borrowing transactions	15,28	15,376	7,891
Trading financial assets mandatorily at fair value through profit or loss	16,28	9,305	3,253
Financial assets designated at fair value through profit or loss	18	25,214	(2,204)
Non-Trading financial assets mandatorily at fair value through profit or loss		(37,477)	n/a
Other assets		2,799	(2,669)
Net decrease/(increase) in operating assets:		28,068	(5,238)
Net (decrease) / increase in operating liabilities:			
Securities sold under repurchase agreements and securities lending transactions	15,28	(11,961)	6,315
Borrowings	25	(2,680)	1,845
Trading financial liabilities mandatorily at fair value through profit or loss	16,28	(1,277)	(1,137)
Financial liabilities designated at fair value through profit or loss	18,28	722	4,272
Accrued expenses and other liabilities		(4,525)	(3,233)
Provisions	26	(1)	(4)
Net (decrease) / increase in operating liabilities:		(19,722)	8,058
Net cash from operating activities		8,322	3,202
Cash flows from investing activities (USD million)			
Proceeds from financial assets available-for-sale	19	–	8
Proceeds from sale of premises, equipment and intangible assets	22,23	120	151
Capital expenditure for property, equipment and intangible assets	22,23	(120)	(152)
Net cash from investing activities		–	7
Cash flows from financing activities (USD million)			
Issuances of debt in issuance (including debt in issuance at fair value through profit or loss)	27	10,712	10,282
Repayment of debt in issuance	27	(19,164)	(14,158)
Increase In capital contribution due to sale of business to common control entity		–	23
Net cash used in financing activities		(8,452)	(3,853)
Net decrease in cash and cash equivalents		(130)	(644)
Cash and cash equivalents at beginning of period		2,578	3,014
Effect of exchange rate fluctuations on cash and cash equivalents held		(106)	208
Cash and cash equivalents at end of period		2,342	2,578
Cash and due from banks		2,604	2,640
Deposits	24	(262)	(62)
Cash and cash equivalents at end of period		2,342	2,578

¹ The Company has elected to present a statement of cash flows that analyses all cash flows in total – i.e. including both continuing and discontinued operations; amounts related to discontinued operations are disclosed in Note 28. 2017 numbers have been restated to conform to the current year's presentation

The notes on pages 44 to 176 form an integral part of the Financial Statements.

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Notes to the Financial Statements for the year ended 31 December 2018

1 General

Credit Suisse Securities (Europe) Limited is domiciled in the United Kingdom. The address of the CSS(E)L Group's registered office is One Cabot Square, London, E14 4QJ. The Consolidated Financial Statements for the year ended 31 December 2018

comprise Credit Suisse Securities (Europe) Limited and its subsidiaries (including structured entities). The Consolidated Financial Statements were authorised for issue by the Directors on 28 March 2019.

2 Significant Accounting Policies

a) Statement of compliance

Both the Company financial statements and the CSS(E)L Group financial statements 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'). On publishing the parent company financial statements here together with the CSS(E)L Group financial statements, the Company is taking advantage of the exemption in s408 of the Companies Act 2006 not to present its individual Statement of Income and related notes.

b) Basis of preparation

The Consolidated Financial Statements are presented in United States Dollars ('USD') rounded to the nearest million. They are prepared on the historical cost basis except that the following assets and liabilities are stated at their fair value: derivative financial instruments, trading financial assets and liabilities mandatorily at fair value through profit or loss, non-trading financial assets mandatorily at fair value through profit or loss and financial instruments designated by the CSS(E)L Group as at fair value through profit and loss.

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.

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

Standards effective in the current period

The CSS(E)L Group has adopted the following new standards and amendments in the current year.

- **IFRS 9 Financial Instruments:** In July 2014, the IASB issued IFRS 9 'Financial Instruments' (IFRS 9) as a complete standard which replaces IAS 39. The Standard includes requirements for recognition and measurement, impairment, derecognition and general hedge accounting. The CSS(E)L Group elected, as a policy choice permitted under IFRS 9, to continue to apply hedge accounting in accordance with IAS 39, until at the latest the requirements on macro hedging are finalised and released. The amendments to IFRS 7 'Financial Instruments: Disclosures' resulting from IFRS 9 also require new disclosures as well as the revision of current disclosure requirements. IFRS 9 is effective for annual periods beginning on or after 1 January 2018.

In October 2017, the IASB issued 'Prepayments Features with Negative Compensation' (Amendments to IFRS 9). The amendments are effective for annual periods beginning on or after 1 January 2019, with early adoption permitted. The CSS(E)L Group early adopted this amendment as at 1 January 2018.

Changes in accounting policies resulting from the adoption of IFRS 9 are generally applied retrospectively; however the CSS(E)L Group has taken advantage of the exemption allowing it not to restate comparative information for prior periods. As a result, the Significant Accounting Policies and Critical Accounting Estimates and Judgements notes have both the 2018 and 2017 policies where applicable.

For the impact of adoption of IFRS 9 on 1 January 2018, please refer to the following tables:

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The below table provides a reconciliation between the original measurement categories and carrying amounts determined under IAS 39 and the new measurement categories under IFRS 9.

CSS(E)L Group

Class of Financial Instrument	FVTPL	Held for trading
Financial assets (USD million)		
Cash and due from banks	–	–
Interest-bearing deposits with banks	–	–
Securities purchased under resale agreements and securities borrowing transactions	–	–
Trading financial assets at fair value through profit or loss	–	23,132
Financial assets designated at fair value through profit or loss	25,272	–
Financial assets available-for-sale	–	–
Other assets	–	–
Assets held for sale	–	6,313
Total Carrying Value of Financial assets	25,272	29,445
Financial liabilities (USD million)		
Deposits	–	–
Securities sold under repurchase agreements and securities lending transactions	–	–
Trading financial liabilities at fair value through profit or loss	–	12,616
Financial liabilities designated at fair value through profit or loss	28,456	–
Borrowings	–	–
Debt in issuance	–	–
Other liabilities	–	–
Liabilities held for sale	109	6,640
Total Carrying Value of Financial liabilities	28,565	19,256

¹ Financial assets available for sale category is no longer applicable under IFRS 9. Accordingly, securities aggregating USD 39 million are transferred from 'available for sale' category to 'Non-trading assets mandatorily at fair valued through profit or loss' with the implementation of IFRS 9. These securities were being managed on a fair value basis.

² There was a transition loss recognised in retained earnings of USD 4 million as IAS 39 collective provisions for exposures without objective evidence of impairment were Nil compared to Stage 1 and Stage 2 ECL provisions of USD 4 million on implementation of IFRS 9.

Measurement Category at 31 December 2017 (IAS 39)			Measurement Category at 1 January 2018 (IFRS 9)				
Available-for-sale	Other Amortised Cost	Total Carrying Value	Reclassifications	Remeasurements	FVTPL	Amortised Cost	Total Carrying Value
-	2,662	2,662	-	-	-	2,662	2,662
-	20,272	20,272	-	-	-	20,272	20,272
-	22,725	22,725	-	-	-	22,725	22,725
-	-	23,132	-	-	23,132	-	23,132
-	-	25,272	39 ¹	-	25,311	-	25,311
39	-	39	(39)	-	-	-	-
-	8,049	8,049	-	(4) ²	-	8,045	8,045
-	15,127	21,440	-	-	6,313	15,127	21,440
39	68,835	123,591	-	(4)	54,756	68,831	123,587
-	62	62	-	-	-	62	62
-	14,268	14,268	-	-	-	14,268	14,268
-	-	12,616	-	-	12,616	-	12,616
-	-	28,456	-	-	28,456	-	28,456
-	5,512	5,512	-	-	-	5,512	5,512
-	21,683	21,683	-	-	-	21,683	21,683
-	17,420	17,420	-	-	-	17,420	17,420
-	9,135	15,884	-	-	6,749	9,135	15,884
-	68,080	115,901	-	-	47,821	68,080	115,901

Company

Class of Financial Instrument	FVTPL	Held for trading
Financial assets (USD million)		
Cash and due from banks	–	–
Interest-bearing deposits with banks	–	–
Securities purchased under resale agreements and securities borrowing transactions	–	–
Trading financial assets at fair value through profit or loss	–	23,143
Financial assets designated at fair value through profit or loss	25,214	–
Financial assets available-for-sale	–	–
Other assets	–	–
Assets held for sale	–	6,313
Total Carrying Value of Financial assets	25,214	29,456
Financial liabilities (USD million)		
Deposits	–	–
Securities sold under repurchase agreements and securities lending transactions	–	–
Trading financial liabilities at fair value through profit or loss	–	12,587
Financial liabilities designated at fair value through profit or loss	28,446	–
Borrowings	–	–
Debt in issuance	–	–
Other liabilities	–	–
Liabilities held for sale	109	6,640
Total Carrying Value of Financial liabilities	28,555	19,227

¹ Financial assets available for sale category is no longer applicable under IFRS 9. Accordingly, securities aggregating USD 39 million are transferred from 'available for sale' category to 'Non-trading assets mandatorily at fair valued through profit or loss' with the implementation of IFRS 9. These securities were being managed on a fair value basis.

² There was a transition loss recognised in retained earnings of USD 4 million as IAS 39 collective provisions for exposures without objective evidence of impairment were Nil compared to Stage 1 and Stage 2 ECL provisions of USD 4 million on implementation of IFRS 9.

Measurement Category at 31 December 2017 (IAS 39)			Measurement Category at 1 January 2018 (IFRS 9)				
Available-for-sale	Other Amortised Cost	Total Carrying Value	Reclassifications	Remeasurements	FVTPL	Amortised Cost	Total Carrying Value
-	2,640	2,640	-	-	-	2,640	2,640
-	20,272	20,272	-	-	-	20,272	20,272
-	22,725	22,725	-	-	-	22,725	22,725
-	-	23,143	-	-	23,143	-	23,143
-	-	25,214	39 ¹	-	25,253	-	25,253
39	-	39	(39)	-	-	-	-
-	8,061	8,061	-	(4) ²	-	8,057	8,057
-	15,127	21,440	-	-	6,313	15,127	21,440
39	68,825	123,534	-	(4)	54,709	68,821	123,530
-	62	62	-	-	-	62	62
-	14,268	14,268	-	-	-	14,268	14,268
-	-	12,587	-	-	12,587	-	12,587
-	-	28,446	-	-	28,446	-	28,446
-	5,512	5,512	-	-	-	5,512	5,512
-	21,683	21,683	-	-	-	21,683	21,683
-	17,406	17,406	-	-	-	17,406	17,406
-	9,135	15,884	-	-	6,749	9,135	15,884
-	68,066	115,848	-	-	47,782	68,066	115,848

The following table provides a reconciliation of impairment of financial assets between IAS 39 and IFRS 9:

CSS(E)L Group and Company (USD million)	31 December 2017 (IAS 39/IAS 37)	Reclassification	Remeasurement	1 January 2018 (IFRS 9)
Interest bearing deposits and other assets	–	–	4	4
Total	–	–	4	4

■ **IFRS 15 Revenue from Contracts with Customers:** In May 2014, the IASB issued IFRS 15 'Revenue from Contracts with Customers' (IFRS 15). IFRS 15 establishes a single, comprehensive framework for revenue recognition. The core principle of IFRS 15 requires that an entity 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 that 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 replaces existing revenue guidance in IFRS.

In April 2016, the IASB issued Clarifications to IFRS 15 'Revenue from Contracts with Customers' (Clarifications to IFRS 15). The Clarifications to IFRS 15 are intended to address implementation questions that were discussed by the Joint Transition Resource Group for Revenue Recognition on licenses of intellectual property, identifying performance obligations, principal versus agent application guidance and transition. IFRS 15 and Clarifications to IFRS 15 are effective for annual reporting periods beginning on or after 1 January 2018.

The CSS(E)L Group adopted the guidance in IFRS 15 and Clarifications to IFRS 15 on 1 January 2018 using the cumulative effect transition approach with a transition adjustment recognised in retained earnings without restating comparatives. As a result, the Significant Accounting Policies and Critical Accounting Estimates and Judgements notes have both the 2018 and 2017 policies where applicable. As a result of adoption, CSS(E)L Group did not have any material changes due to timing of the recognition of certain fees. In assessing whether an entity's promises to transfer goods or services to the customer are separately identifiable, the objective is to determine whether the nature of the promise, within the context of the contract, is to transfer each of those goods or services individually or, instead, to transfer a combined item or items to which the promised goods or services are inputs. As a result of the CSS(E)L Group's assessment of performance obligations within advisory contracts, the CSS(E)L Group did not identify any changes in the timing of the recognition of certain fees.

Additionally, the new guidance required the gross up of revenue and related expenses in underwriting, fund management and investment banking advisory, and under Revenue Share Agreements and Transfer Pricing Adjustments; this change in

presentation from net to gross would have increased the revenues and expenses in 2017 by USD 189 million.

Furthermore with the adoption of the new revenue standard the brokerage, clearing and exchange expenses, which are incurred when acting as an agent on behalf of customers buying or selling exchange traded cash securities, exchange-traded derivatives or centrally cleared OTC derivatives, are offset against the commission income. This change in presentation of brokerage, clearing and exchange expenses would have decreased the revenues and expenses in 2017 by approximately USD 5 million.

■ **Amendments to IFRS 2 Share-based Payment:** In June 2016, the IASB issued narrow scope amendments to IFRS 2 'Share Based Payment' (Amendments to IFRS 2). The Amendments clarify how to account for certain types of share-based payment transactions. The Amendments to IFRS 2 are effective for annual periods beginning on or after 1 January 2018, with early application permitted. The adoption of the Amendments to IFRS 2, did not have a material impact to the CSS(E)L Group's financial position, results of operation or cash flows.

Standards and Interpretations endorsed by the EU and not yet effective

The CSS(E)L Group is not yet required to adopt the following standards and interpretations which are issued by IASB but not yet effective.

■ **IFRS 16 Leases:** In January 2016 the IASB issued IFRS 16 Leases ('IFRS 16') superseding IAS 17 'Leases', IFRIC 4 'Determining whether an Arrangement contains a Lease', SIC-15 'Operating Lease-Incentives' and SIC-27 'Evaluating the Substance of Transactions Involving the Legal Form of a Lease'.

IFRS 16 sets out the principles for the recognition, measurement, presentation and disclosure of leases for both lessees and lessors. IFRS 16 includes disclosure requirements to provide more information about the amount, timing and uncertainty of cash flows arising from leases. Lessor accounting is substantially unchanged compared to the current accounting guidance. Under the current lessee accounting model the CSS(E)L Group is required to distinguish between finance leases, which are recognised on balance sheet, and operating leases, which are not. IFRS 16 introduces a single, on-balance sheet lessee accounting model and requires lessees to present a right-of-use asset and a corresponding lease liability on the balance sheet for most leases. IFRS 16 is effective for annual periods beginning on or after

1 January 2019. Early adoption was permitted for entities that apply IFRS 15 at or before the initial application of IFRS 16.

The CSS(E)L Group adopted IFRS 16 on January 1, 2019 using the modified retrospective approach with the cumulative effect adjustment recognised in retained earnings without restating comparatives. The CSS(E)L Group elected to apply IFRS 16 to contracts that were previously identified as leases applying IAS 17 and IFRIC 4 and practical expedient to use hindsight in determining the lease term.

The CSS(E)L Group does not have any material leases and therefore the adoption of IFRS 16 on 1 January 2019 did not have any material impact on the CSS(E)L Group's financial position, results of operations or cash flows.

- **IFRIC 23:** In June 2017, the IASB issued IFRIC 23 'Uncertainty over Income Tax Treatments' (IFRIC 23). IFRIC 23 clarifies the accounting for uncertainties in income taxes and is to be applied to the determination of taxable profit (tax loss), tax bases, unused tax losses, unused tax credits and tax rates, when there is uncertainty over income tax treatments under IAS 12. IFRIC 23 is effective for annual periods beginning on or after 1 January 2019. The adoption of IFRIC 23 on 1 January 2019 did not have a material impact on the CSS(E)L Group's financial position, results of operations and cash flows.
- **Annual Improvements to IFRSs 2015-2017 Cycle:** In December 2017, the IASB issued 'Annual Improvements to IFRSs 2015-2017 cycle' (Improvements to IFRSs 2015-2017). The Improvements to IFRSs 2015-2017 are effective for annual periods beginning on or after 1 January 2019. The adoption of Annual Improvements to IFRSs 2015-2017 Cycle on 1 January did not have a material impact on the CSS(E)L Group's financial position, results of operations and cash flows.
- **Amendments to IAS 19:** Plan Amendment, Curtailment or Settlement: In February 2018, the IASB issued 'Plan Amendment, Curtailment or Settlement' (Amendments to IAS 19) that specifies how companies determine pension expenses when changes to a defined benefit pension plan occur. The Amendments to IAS 19 are effective for annual periods beginning on or after 1 January 2019 and are not expected to have a material impact on the CSS(E)L Group's financial position, results of operation or cash flows.

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

The CSS(E)L Group is not yet required to adopt the following standard and interpretation which is issued by the IASB but not yet effective and has not yet been endorsed by the EU.

- **Amendments to the definition of Business (IFRS 3):** In October 2018, the IASB issued 'Definition of a Business' (Amendments to IFRS 3) to make it easier for companies to decide whether activities and assets they acquire are a business or merely a group of assets. The amendments are effective for business combinations for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after January 1, 2020 and to asset acquisitions that occur

on or after the beginning of that period. The CSS(E)L Group is currently evaluating the impact of adopting the Amendments to IFRS 3.

The accounting policies have been applied consistently by the CSS(E)L Group entities. Certain reclassifications have been made to the prior year Consolidated Financial Statements of the CSS(E)L Group to conform to the current year's presentation and had no impact on net income/ (loss) or total shareholders' equity.

c) Basis of consolidation

The consolidated financial statements include the results and positions of the CSS(E)L Group and its subsidiaries (which includes consolidated structured entities). Subsidiaries are entities controlled by the CSS(E)L Group. The CSS(E)L Group 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 CSS(E)L Group has decision making rights, it assesses whether it controls an entity and determines whether it is a principal or an agent. The CSS(E)L Group also determines whether another entity with decision-making rights is acting as an agent for the CSS(E)L Group. 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 following factors, 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 CSS(E)L Group makes significant judgements and assumptions when determining if it has control of another entity. The CSS(E)L Group may control an entity even though it holds less than half of the voting rights of that entity, for example if the CSS(E)L Group 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 CSS(E)L Group may not control an entity even though it holds more than half of the voting rights of that entity, for example where the CSS(E)L Group 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 CSS(E)L Group reassesses consolidation status on at least a quarterly basis.

The effects of intra-group transactions and balances, and any unrealised income and expenses arising from such transactions

have been eliminated in preparing the consolidated financial statements. Unrealised gains arising from transactions with equity-accounted investees are eliminated against the investment to the extent of the CSS(E)L Group's interest in the investee. Unrealised losses are eliminated in the same way as unrealised gains, but only to the extent that there is no evidence of impairment.

CSS(E)L Group accounts for a combination of entities or businesses under common control at book value. If the consideration transferred in such a transaction is higher than the carrying amount of the net assets received and CSS(E)L Group is the acquirer in the transaction, the difference is recorded as a reduction in retained earnings. If CSS(E)L Group is the seller in the transaction, the difference is recorded as an increase in Capital contribution. If the consideration transferred in such a transaction is lower than the carrying amount of the net assets received and CSS(E)L Group is the acquirer in the transaction, the difference is recorded as an increase in Capital contribution. If CSS(E)L Group is the seller in the transaction, the difference is recorded as a reduction in retained earnings. No goodwill or gain or loss is recorded in such a transaction.

d) Equity method investments

The CSS(E)L Group's interest(s) in an associate(s) is/are accounted for using the equity method. Associates are entities in which the CSS(E)L Group has significant influence, but not control (or joint control), over the operating and financial management policy decisions. This is generally demonstrated by the CSS(E)L Group holding in excess of 20 per cent, but no more than 50 per cent, of the voting rights. The CSS(E)L Group makes significant judgements and assumptions when determining if it has significant influence over another entity. The CSS(E)L Group may have significant influence with regards to an entity even though it holds less than 20 per cent of the voting rights of that entity, for example, if the CSS(E)L Group has the power to participate in the financial and operating decisions by sitting on the Board. Conversely, the CSS(E)L Group may not have significant influence when it holds more than 20 per cent of the voting rights of that entity as it does not have the power to participate in the financial and operating decisions of an entity.

Equity method investments are initially recorded at cost and increased (or decreased) each year by the CSS(E)L Group's share of the post-acquisition net income (or loss), or other movements reflected directly in the equity of the equity method investment, until the date on which significant influence (or joint control) ceases.

e) Foreign currency

The Company's functional currency is USD. 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 USD at the foreign exchange rate ruling at that date. Foreign exchange differences arising from translation are recognised in the Consolidated Statement of Income. Non-monetary assets and liabilities denominated in foreign currencies at the reporting date unless revalued at fair value are not revalued for movements in foreign exchange rates.

Assets and liabilities of CSS(E)L Group companies with functional currencies other than USD are translated to USD at foreign exchange rates ruling at the Statement of Financial Position date. The revenue and expenses of these CSS(E)L Group companies are translated to USD at the average foreign exchange rates for the year. The resulting translation differences are recognised directly in a separate component of equity. On disposal, these translation differences are reclassified to the Consolidated Statement of Income as part of gain or loss on disposal.

f) Financial assets and liabilities (Accounting policy for 2018)

CSS(E)L Group's financial assets are classified on the basis of two criteria: 1) the business model which refers to how the group manages a financial asset in order to generate cash flows and 2) the contractual cash flow characteristics of the financial asset.

The business model assessments are performed by considering the way in which the financial assets are managed to achieve a particular business objective as determined by management. The assessment is made at the level at which the group of financial assets are managed. These assessments are based on reasonable expectations. All relevant and objective evidence are considered while performing the business model assessments, for example:

- How the performance of the financial assets is evaluated and reported to key management personnel.
- The risks that affect the performance of the financial assets and how those risks are managed.
- How managers of the business are compensated.

The 'Hold to Collect' business model is a model with the objective to hold a financial asset to collect contractual cash flows. Sales are incidental to the objective of this model. The 'Hold to Collect and Sell' business model is a model with the objective to both hold financial assets to collect contractual cash flows and to sell financial assets. This model has a greater frequency of sales than a 'Hold to Collect' business model. The CSS(E)L Group does not have any financial assets which are under the 'Hold to Collect and Sell' business model.

The financial assets which are not classified under the 'Hold to Collect' and 'Hold to Collect and Sell' business models are measured at fair value. These include financial assets that meet the trading criteria; those that are managed on a fair value basis or designated at fair value as well as equity instruments where an irrevocable election is made on initial recognition to present changes in fair value in other comprehensive income ('OCI'). Refer to sections below for further guidance.

For 'Hold to Collect' and 'Hold to Collect and Sell' business model, the contractual cash flows of the financial assets are assessed to determine if they consist of solely payments of principal and interest. For the purpose of this assessment, 'principal' is defined as the fair value of the financial asset on initial recognition. 'Interest' is defined as consideration for time value of money, for the credit risk associated with the principal amount outstanding during a particular period of time and for other basic lending risks and costs (e.g. liquidity risk and administrative costs), as well as a profit margin. In assessing whether the contractual cash flows are solely payments of principal and interest, the CSS(E)L Group will consider the contractual terms of the instrument. This will include assessing whether the financial asset contains a contractual term that could change the timing or amount of contractual cash flows such that it would not meet this condition.

These criteria determine how a financial asset is subsequently measured into one of the following classification categories:

Amortised Cost

Financial assets which have contractual cash flows which consist solely of payments of principal and interest and are held in a 'Hold to Collect' business model are subsequently measured at amortised cost and are subject to impairment. (Refer note g).

Equity Instruments at Fair Value through Other Comprehensive Income ('FVOCI')

An equity instrument irrevocably designated at FVOCI is subsequently measured at FVOCI, with dividend income recognised in profit and loss, and all other gains and losses recognised in OCI.

Trading financial assets and liabilities mandatorily at Fair Value through Profit or Loss

Trading financial assets and financial liabilities include mainly debt and equity securities, derivative instruments, loans and precious metals. These assets and liabilities are included as part of the trading portfolio based on management's intention to sell the assets or repurchase the liabilities in the near term, and are carried at fair value.

Related realised and unrealised gains and losses are included in 'Net gains/(losses) from financial assets/liabilities at fair value through profit or loss'.

Non-trading financial assets mandatorily at Fair Value through Profit or Loss

Non-trading financial assets which are managed on a fair value basis are classified as 'Non-trading financial assets mandatorily at fair value through profit or loss' and measured at fair value through profit or loss. Related realised and unrealised gains and losses are included in 'Net gains/(losses) from financial assets/liabilities at fair value through profit or loss'.

A financial asset is considered to be managed on a fair value basis if at least two of these three conditions are fulfilled:

- the performance of these assets is evaluated and reported to the management by using the fair value of the financial assets

- the managers of the business are compensated on the fair value of the assets (for example their variable compensations are linked to how well the assets they are managing perform)
- the risks that affect the performance of the financial assets are managed on a fair value basis. Primary focus is on fair value information and using that information to assess the performance of the assets and to make decisions about that asset

Financial Instruments designated as held at Fair Value through Profit or Loss

Financial assets which have contractual cash flows which consist solely of payments of principal and interest and are held in a 'Hold to Collect' business model may be designated at fair value through profit or loss if the designation at fair value eliminates or significantly reduces a measurement or recognition inconsistency, also referred to as accounting mismatch that would otherwise arise from measuring assets or liabilities or recognising the gains and losses on them on different bases.

Related realised and unrealised gains and losses are included in 'Net gains/(losses) from financial assets/liabilities at fair value through profit or loss'.

Financial liabilities are only designated as held at fair value through profit or loss if the instruments contain an embedded derivative, or when doing so results in more relevant information, because either:

- (i) it eliminates or significantly reduces an inconsistency in measurement or recognition (refer to the criteria mentioned in the above paragraph for Financial Assets); or
- (ii) a group of financial assets, financial liabilities or both is managed and its performance is evaluated on a fair value basis, in accordance with a documented risk management or investment strategy, and information about the CSS(E)L Group is provided internally on that basis to the entity's key management personnel. This election is used for instruments purchased or issued by business units that manage their performance on a fair value basis. For all instruments elected under this criterion, the business maintains a documented strategy that states that these instruments are risk managed on a fair value basis. Additionally, management relies upon the fair value of these instruments in evaluating the performance of the business; or
- (iii) If a contract contains one or more embedded derivatives (irrespective as to whether the embedded derivative is not closely related to the contract), an entity may designate the entire hybrid (or combined) contract as a financial liability fair value through profit or loss unless:
 - the embedded derivatives do not significantly modify the cash flows that otherwise would be required by the contract, or
 - it is apparent with little or no analysis that bifurcation would be prohibited (e.g., prepayment option that triggers redemption at amortised cost).

Financial liabilities designated at fair value through profit and loss must present all changes in the fair value in the 'Net gains/

(losses) from financial assets/liabilities at fair value through profit or loss' except for changes in the own credit risk of the liability is recorded in OCI. Upon extinguishment of financial liability any amount of own credit remaining in OCI relating to the extinguished debt remains in equity but is reclassified to retained earnings.

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 CSS(E)L Group maximises the use of relevant observable inputs and minimises the use of unobservable inputs. Where the fair value is not determined using a quoted price in an active market for an identical asset or liability or 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.

Financial assets and liabilities at fair value through profit or loss (Accounting Policy for 2017)

The CSS(E)L Group classifies certain financial assets and liabilities as either held for trading or designated at fair value through profit or loss. Financial assets and liabilities with either classification 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 CSS(E)L Group maximises the use of relevant observable inputs and minimises the use of unobservable inputs. Where the fair value is not determined using a quoted price in an active market for an identical asset or liability or 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. Related realised and unrealised gains and losses are included in 'Net gains/(losses) from financial assets/liabilities at fair value through profit or loss'.

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

Trading financial assets and financial liabilities include mainly debt and equity securities, derivative instruments, loans and precious metals. These assets and liabilities are included as part of the trading portfolio based on management's intention to sell the assets or repurchase the liabilities in the near term, and are carried at fair value.

Financial instruments designated as held at fair value through profit or loss

Financial assets and liabilities are only designated as held at fair value through profit or loss if the instruments contain an

embedded derivative, or when doing so results in more relevant information, because either:

- (i) it eliminates or significantly reduces an inconsistency in measurement or recognition (sometimes referred to as an 'accounting mismatch') that would otherwise arise from measuring assets or liabilities or recognising the gains and losses on them on different bases. This election is used for instruments that would otherwise be accounted for under an accrual method of accounting where their economic risks are hedged with derivative instruments that require fair value accounting. This election eliminates or significantly reduces the measurement mismatch between accrual accounting and fair value accounting; or
- (ii) a group of financial assets, financial liabilities or both is managed and its performance is evaluated on a fair value basis, in accordance with a documented risk management or investment strategy, and information about the CSS(E)L Group is provided internally on that basis to the entity's key management personnel. This election is used for instruments purchased or issued by business units that manage their performance on a fair value basis. For all instruments elected under this criterion, the business maintains a documented strategy that states that these instruments are risk managed on a fair value basis. Additionally, management relies upon the fair value of these instruments in evaluating the performance of the business.

The Fair Value Option has been applied to certain debt instruments, equity securities and loans and the related financial assets and financial liabilities are presented as 'Financial assets designated at fair value through profit or loss' or 'Financial liabilities designated at fair value through profit or loss'. Movements in 'Financial assets designated at fair value through profit or loss' or 'Financial liabilities designated at fair value through profit or loss' are recognised in 'Net gains/(losses) from financial assets/liabilities at fair value through profit or loss'. Once designated this election is irrevocable.

g) Impairment of financial assets, loan commitments and financial guarantees (Accounting Policy for 2018)

The impairment requirements apply primarily to financial assets measured at amortised cost as well as certain loan commitments and financial guarantee contracts. The impairment requirements are based on a forward-looking expected credit loss ('ECL') model by incorporating reasonable and supportable forecasts of future economic conditions available at the reporting date. This requires considerable judgement over how changes in economic factors affect ECLs, which is determined on a probability-weighted basis.

All financial assets attract a 12 month ECL on origination (Stage 1) except for loans that are purchased or originated credit-impaired. When credit risk has increased significantly since initial recognition of the financial instrument, the impairment

measurement is changed from 12-month expected credit losses (Stage 1) to lifetime expected credit losses (Stage 2).

The assessment of a significant increase in credit risk since initial recognition is based on different quantitative and qualitative factors that are relevant to the particular financial instrument in scope. If the financial assets are credit-impaired they are then moved to Stage 3. A financial asset is credit-impaired when one or more events that have a detrimental impact on the estimated future cash flows of that financial asset have occurred. Evidence that a financial asset is credit-impaired includes observable data about the following events:

- a) significant financial difficulty of the issuer or the borrower;
- b) a breach of contract, such as a default or past due event;
- c) the lender(s) of the borrower, for economic or contractual reasons relating to the borrower's financial difficulty, having granted to the borrower a concession(s) that the lender(s) would not otherwise consider;
- d) it becoming probable that the borrower will enter bankruptcy or other financial reorganisation;
- e) the disappearance of an active market for that financial asset because of financial difficulties; or
- f) the purchase or origination of a financial asset at a deep discount that reflects the incurred credit losses.

It may not be possible to identify a single discrete event—instead, the combined effect of several events may have caused financial assets to become credit-impaired.

Measurement of ECLs

ECLs are a probability-weighted estimate of potential credit losses and application of measurement is as follows:

- Financial assets that are not credit-impaired at the reporting date (Stage 1 or Stage 2), apply the present value of all cash shortfalls – i.e. the difference between the cash flows due to the entity in accordance with the contract and the cash flows that the CSS(E)L Group expects to receive. The CSS(E)L Group applies a PD/LGD approach under which term structures of point-in-time probability of defaults ('PDs'), point-in-time loss given defaults ('LGDs') and exposure at defaults ('EADs') are estimated;
- Financial assets that are credit-impaired at the reporting date (Stage 3), apply the difference between the gross carrying amount and the present value of estimated future cash flows.
- Undrawn loan commitments apply the present value of the difference between the contractual cash flows that are due to the CSS(E)L Group if the commitment is drawn down and the cash flows that the CSS(E)L Group expects to receive; and
- Financial guarantee contracts apply the present value of the expected payments to reimburse the holder less any amounts that the CSS(E)L Group expects to recover.
- The CSS(E)L Group applies the simplified approach to providing for expected credit losses which permits the use of the lifetime expected loss provision for all fee receivables. To measure the expected credit losses, the CSS(E)L Group will apply a provision matrix in the form of aging analysis, including

relevant forward looking information. The fee receivables do not contain a significant financing component.

Definition of default

The definition of default is aligned with the regulatory definition of default which is based on 90 days past due and unlikely to pay on material obligation.

In assessing whether a borrower is in default, the CSS(E)L Group considers indicators that are:

- Qualitative: e.g. breaches of covenants;
- Quantitative: e.g. overdue status and non-payment of another obligation of the same issuer to the CSS(E)L Group; and
- Based on data developed internally and obtained from external sources.

Inputs into the assessment of whether a financial instrument is in default and their significance may vary over time to reflect changes in circumstances.

Forward looking information

The estimation and application of forward-looking information requires significant judgement. The CSS(E)L Group's estimation of expected credit losses is based on a discounted probability-weighted estimate that considers three future macroeconomic scenarios to capture the point of non-linearity of losses: a base scenario, an upside scenario, and a downside scenario. The base case represents a most-likely outcome and is aligned with information used by the CSS(E)L Group for other purposes, such as strategic planning and budgeting. Currently, the other scenarios represent more optimistic and more pessimistic outcomes with the downside scenario being more severe than the upside scenario.

Scenarios are probability-weighted according to the CSS(E)L Group's best estimate of their relative likelihood based on historical frequency and current trends and conditions and macroeconomic factors such as interest rates, gross domestic product and unemployment rates. Probability weights are reviewed and updated (if required) on a quarterly basis.

Significant increases in credit risk ('SICR')

The measurement of expected credit losses for each stage and the assessment of significant increases in credit risk must consider information about past events and current conditions as well as reasonable and supportable forecasts of future events and economic conditions.

The CSS(E)L Group has established a framework that incorporates both quantitative and qualitative information to determine whether the credit risk on a particular financial instrument has increased significantly since initial recognition. The framework aligns with the CSS(E)L Group's internal credit risk management process. The criteria for determining whether credit risk has increased significantly vary by portfolio.

The assessment of significant increases in credit risk is generally based on two indicators:

- changes in probability-weighted forward-looking lifetime PD, using the same macroeconomic scenarios as the calculation of expected credit losses for newly originated financial instruments (forward book); or changes in credit rating for financial instruments originated prior to the effective date of IFRS 9 (back book), and
- credit watch list as specific qualitative information.

The rebuttable presumption of more than 30 days past due has not been used because financial instruments are considered credit-impaired and therefore transferred into Stage 3 earlier than 30 days past due, unless credit risk management determines the default to be operational in nature and it is rectified in a short period of time (normally within a week).

The CSS(E)L Group monitors the effectiveness of the criteria used to identify significant increases in credit risk by regular reviews to confirm that:

- the criteria are capable of identifying significant increases in credit risk before an exposure is in default;
- the average time between the identification of a significant increase in credit risk and default appears reasonable;
- exposures are not generally transferred directly from 12-month ECL measurement to credit-impaired; and
- there is no unwarranted volatility in loss allowance from transfers between 12-month ECL and lifetime ECL measurements.

A financial instrument is transferred from Stage 2 to Stage 1, if it no longer meets the stage transition criteria. The stage transition criteria implicitly reflect a probation period, either by the idiosyncratic nature of PDs or by the credit watch list process.

A financial instrument is transferred from Stage 3 to Stage 2 or 1 after a probation period in line with the CSS(E)L Group's credit risk management practices. If the financial instrument has not met the criteria to be considered credit-impaired for a minimum number of months, it will be returned to either Stage 2 or Stage 1 depending on the characteristics of the financial instrument.

The low credit risk exemption has not been used in the context of determining significant increases in credit risk.

Reverse repurchase agreements and securities borrowing transactions are not impacted by the SICR process due to the risk management practices adopted, including regular margin calls. If margin calls are not satisfied, positions will be closed out immediately with any shortfall generally classified as a Stage 3 position.

Expected life

The maximum period to consider when measuring expected credit losses is the maximum contractual period (including borrower-only extension options) over which the CSS(E)L Group is exposed to credit risk and not a longer period, even if that longer period is consistent with business practice.

Grouping financial assets measured on a collective basis

For Stage 1 and Stage 2 ECLs, financial assets are grouped based on shared credit risk characteristics, e.g. product type and geographic location. However, for each financial asset within the grouping an ECL is calculated based on the PD/LGD approach. Financial assets are grouped as follows:

- Financial institutions
- Corporates
- Fallback (assets not included in any of the above categories)

For all Stage 3 assets, regardless of the class of financial assets, the CSS(E)L Group calculates ECL on an individual basis.

Write-off of loans

When it is considered certain that there is no reasonable prospect of recovery and all collateral has been realised or transferred to the CSS(E)L Group, the loan and any associated allowance is written off. If the amount of loss on write-off is greater than the accumulated loss allowance, the differences result in an additional impairment loss. The additional impairment loss is first recognised as an addition to the allowance that is then applied against the gross carrying amount. Any repossessed collateral is initially measured at fair value. The subsequent measurement depends on the nature of the collateral.

h) Net Loans (Accounting Policy for 2018)

Loans are measured at amortised cost or mandatorily at fair value through profit or loss depending on the business model and the sole payment of principal and interest application (refer note f). Other loans and receivables in 2017 are defined as Net loans in 2018.

When calculating the effective interest on non-credit impaired loans measured at amortised cost, the CSS(E)L Group estimates cash flows considering all contractual terms of the financial instruments including premiums, discounts, fees and transactions costs but not expected credit losses. For detailed impairment guidance refer to note g.

Other Loans and Receivables (Accounting Policy for 2017)

Other loans and receivables are initially recorded at fair value, plus any directly attributable transaction costs and subsequently are amortised on an effective interest method, less impairment losses.

Impairment on other loans and receivables

The CSS(E)L Group assessed at Consolidated Statement of Financial Position date whether there is objective evidence that a significant loan position or a portfolio of loans is impaired. A significant 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 Consolidated Statement of Financial Position date ('a loss event') and that loss event or events has had an impact on the

estimated future cash flows of the financial asset or the portfolio that can be reliably estimated.

All individually significant loans are assessed for specific impairment. Individually significant loans found not to be impaired are then collectively assessed for impairment that has been 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 CSS(E)L Group's estimate of the impairment losses on loans, including volatility of default probabilities, rating migrations and loss severity. The estimate of the component of the allowance for specifically identified credit losses on impaired loans is based on a regular and detailed analysis of each loan in the portfolio considering collateral and counterparty risk. For certain non-collateral dependent impaired loans, impairment charges are measured using the present value of estimated future cash flows discounted at the asset's original effective interest rate. For collateral dependent impaired loans, impairment charges are measured using the value of the collateral.

The estimation of impairment for a loan portfolio involves applying historical loss experience, adjusted to reflect current market conditions, to homogeneous loans based on risk rating and product type. The amount of the loss is recognised in the Consolidated Statement of Income within 'Provision for credit losses'. 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 CSS(E)L Group, 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

Where possible, the CSS(E)L Group seeks to restructure loans rather than to take possession of collateral. This 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.

Loan commitments

Certain loan commitments are classified as financial assets/liabilities at fair value through profit or loss in accordance with the policy discussed in note f under section 'Financial instruments designated as held at fair value through profit or loss'. All other loan commitments remain off-balance sheet. If such commitments are considered onerous, a provision is raised in accordance with IAS 37, 'Provisions, Contingent Liabilities and Contingent Assets' based upon management's best estimate of the expenditure required to settle the obligation.

i) Cash and due from Banks

For the purpose of preparation and presentation of the Consolidated 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'.

The CSS(E)L Group collects and remits cash between its clients and various Central Counterparty Clearing Houses ('CCPs'), Brokers and Deposit Banks. Where the CSS(E)L Group obtains benefits from or controls the cash from its clients, the cash is an asset of the CSS(E)L Group and is included within cash and due from banks on the Consolidated Statement of Financial Position and the corresponding liability is included in 'Other liabilities'.

Where the CSS(E)L Group has contractually agreed with the client that:

- The CSS(E)L Group will pass through to the client all interest paid by the CCP, Broker or Deposit Bank on cash deposits;
- The CSS(E)L Group is not permitted to transform cash balances into other assets; and
- The CSS(E)L Group does not guarantee and is not liable to the client for the performance of the CCP, Broker or Deposit Bank, then cash collected from clients and remitted to the CCP, Broker or Deposit Bank is not reflected on the CSS(E)L Group's Consolidated Statement of Financial Position. Examples include initial margin where the CSS(E)L Group acts as Broker in an agency capacity and cash designated as client money under the Client Assets ('CASS') client money rules of the UK's Financial Conduct Authority ('FCA').

For 2018, cash and cash equivalents are measured at amortised cost and are subject to impairment (refer note g).

j) Interest income and expense (Accounting Policy for 2018)

Interest income and expense includes interest income and expense on the CSS(E)L Group's loans, deposits, borrowings, debt issuances, reverse repurchase and repurchase agreements and securities borrowed and securities lending transactions. Interest income and expense does not include interest flows on the CSS(E)L Group's trading derivatives (except for hedging relationships) and certain financial instruments classified as at fair value through profit or loss which are included in 'Net gains from financial assets/liabilities at fair value through profit or loss'. Interest income and expense on instruments measured at amortised cost 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. When a financial asset becomes credit-impaired (or 'Stage 3'), interest income is calculated by applying the effective interest rate to the amortised cost (i.e. net of the expected credit loss provision).

Interest income and expense (Accounting Policy for 2017)

Interest income and expense includes interest income and expense on the CSS(E)L Group's loans, deposits, borrowings, debt in issuances, reverse repurchase and repurchase agreements and securities borrowed and securities lending transactions. Interest income and expense does not include interest flows on the CSS(E)L Group's trading derivatives (except for hedging relationships) and certain financial instruments classified as at fair value through profit or loss which are included in 'Net gains from financial assets/liabilities at fair value through profit or loss'. Interest income and expense on instruments measured at amortised cost 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.

k) Commissions and fees (Accounting Policy for 2018)

Fee and commission revenue is recognised from a diverse range of services provided by CSS(E)L to its customers. CSS(E)L recognises revenue when it satisfies a performance obligation by transferring control over a service to a customer. Variable consideration is only included in the transaction price once it is highly probable that a significant reversal in the amount of cumulative revenue recognised will not occur when the uncertainty associated with the variable consideration is subsequently resolved. Generally no significant judgements are applied when recording variable consideration. If a fee is a fixed percentage of a variable account value, at contract inception, the fee is constrained as the promised consideration is highly susceptible to change due to factors outside of the entity's influence. However, at each subsequent reporting date (i.e. daily, monthly, quarterly), the cumulative amount of the consideration from the fee to which the entity is entitled is not constrained because it is calculated based on the account value which is known. Therefore, the fee is not variable as at the point it is recognised.

Specifically for the entity's underwriting transactions, all expenses incurred in satisfying the performance obligation are deferred and recognised once the deal is complete. As each member of the syndicate group, including the lead and participating underwriters, is acting as principal for their proportionate share of the syndication, the individual underwriters will reflect their proportionate share of underwriting revenue and underwriting costs on a gross basis.

Commissions and fees (Accounting Policy for 2017)

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

- Income earned on the execution of a significant act is recognised as revenue when the act is completed (for example, fees arising from negotiating, or participating in the negotiation of, a transaction for a third party, such as fees from mergers and acquisitions and other corporate finance advisory services);
- Income earned from the provision of services is recognised as revenue as the services are provided (for example, portfolio management, granting of loan commitments where it is not probable that the CSS(E)L Group will enter into a specific lending arrangement, 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 (for example, certain loan commitment fees where it is probable that the CSS(E)L Group will enter into a specific lending agreement) and recorded in 'Interest income'; and
- Performance-linked fees or fee components are recognised when the 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 costs are recognised as and when the CSS(E)L Group recognises the related revenue.

l) Derivative financial instruments and hedging

All freestanding derivative contracts are carried at fair value in the Consolidated Statement of Financial Position regardless of whether these instruments are held for trading or risk management purposes. 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 transactions on our own behalf and from customer-based activity, with changes in fair value included in 'Net gains/(losses) from financial assets/liabilities at fair value through profit or loss'. Derivative contracts, which are both designated and qualify for hedge accounting, are reported in the Consolidated Statement of Financial Position as 'Other assets' or 'Other liabilities'.

Embedded derivatives

When derivative features embedded in certain contracts that meet the definition of a derivative are not considered closely related to the host instrument, either the embedded feature will be accounted for separately at fair value, with changes in fair value recorded in the Consolidated Statement of Income, or the instrument, including the embedded feature, is accounted for at fair value either under the fair value option or due to classification as held for trading. In the latter case the entire instrument is recorded at fair value with changes in fair value recorded in the Consolidated Statement of Income. If separated for measurement purposes, the derivative is recorded in the same line in the Consolidated Statement of Financial Position as the host instrument. From 2018 this policy is only applicable to financial liabilities and not financial assets.

Cash flow hedge accounting

For hedges of the variability of cash flows from forecasted transactions and floating rate assets or liabilities, the effective portion of the change in the fair value of a designated derivative is recorded in Accumulated Other Comprehensive Income ('AOCI') as part of shareholders' equity. These amounts are reclassified into the Consolidated Statement of Income when the variable cash flow from the hedged item impacts earnings (e.g. when periodic settlements on a variable rate asset or liability are recorded in the Consolidated Statement of Income or when the hedged item is disposed of). Hedge ineffectiveness is recorded in "Net gains/(losses) from financial assets/liabilities at fair value through profit or loss".

When hedge accounting is discontinued on a cash flow hedge, the net gain or loss will remain in AOCI and be reclassified into the Consolidated Statement of Income in the same period or periods during which the formerly hedged transaction is reported in the Consolidated Statement of Income.

When the CSS(E)L Group discontinues hedge accounting because a forecasted transaction is no longer expected to occur, the derivative will continue to be carried on the Consolidated Statement of Financial Position at its fair value, and gains and losses that were previously recorded in equity will be recognised immediately in the Consolidated Statement of Income. When the CSS(E)L Group discontinues hedge accounting but the forecasted transaction is still expected to occur, the derivative will continue to be recorded at its fair value with all subsequent changes in value recorded directly in the Consolidated Statement of Income. Any gains or losses recorded in equity prior to the date hedge accounting is no longer applied will be reclassified to net income when the forecasted transaction takes place.

m) Securities purchased or sold under resale agreements or repurchase agreements (Accounting policy for 2018)

Securities purchased under resale agreements ('reverse repurchase agreements') and securities sold under repurchase agreements ('repurchase agreements') do not constitute economic

sales and are therefore treated as collateralised financing transactions.

Securities received under reverse repurchase agreements and securities delivered under repurchase agreements are not recognised or derecognised unless all or substantially all the risks and rewards are obtained or relinquished. The CSS(E)L Group 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.

In reverse repurchase agreements, the cash advanced, is recognised on the Consolidated Statement of Financial Position as an asset and is measured at either amortised cost or mandatorily at fair value through profit or loss (Refer note f). The reverse repurchase agreements that are measured at amortised cost are subject to impairment (Refer note g). In repurchase agreements, the cash received, is recognised on the Consolidated Statement of Financial Position as a liability and is measured at either amortised cost or designated at fair value through profit or loss.

Interest earned on reverse repurchase agreements and interest incurred on repurchase agreements is recognised on an effective yield basis and recorded as interest income or interest expense.

Securities purchased or sold under resale agreements or repurchase agreements (Accounting policy for 2017)

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

Securities received under reverse repurchase agreements and securities delivered under repurchase agreements are not recognised or derecognised unless all or substantially all the risks and rewards are obtained or relinquished. The CSS(E)L Group 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 and interest incurred on repurchase agreements is recognised on an effective yield basis and recorded as interest income or interest expense.

n) Securities borrowing and lending transactions (Accounting Policy for 2018)

Securities borrowing and securities lending transactions are generally entered into on a collateralised basis. The transfer of the securities themselves is not reflected on the Consolidated Statement of Financial Position unless the risks and rewards of ownership are also transferred. If cash collateral is advanced or received, securities borrowing and lending activities are recorded

at the amount of cash collateral advanced (cash collateral on securities borrowed) or received (cash collateral on securities lent). The sale of securities received in a security borrowing transaction results in the recognition of a trading liability (short sale).

The CSS(E)L Group monitors the market value of the securities borrowed and lent on a daily basis and provides or requests additional collateral in accordance with the underlying agreements.

Securities borrowing transactions are measured at either amortised cost or mandatorily at fair value through profit or loss and are recognised on the Consolidated Statement of Financial Position as an asset (Refer note f).

Securities lending transactions are measured at either amortised cost or designated at fair value through profit or loss and are recognised on the Consolidated Statement of Financial Position as a liability.

Fees are recognised on an accrual basis and interest received or paid is recognised on an effective yield basis and recorded as interest income or interest expense.

Securities borrowing and lending transactions (Accounting Policy for 2017)

Securities borrowing and securities lending transactions are generally entered into on a collateralised basis. The transfer of the securities themselves is not reflected on the Consolidated Statement of Financial Position unless the risks and rewards of ownership are also transferred. If cash collateral is advanced or received, securities borrowing and lending activities are recorded at the amount of cash collateral advanced (cash collateral on securities borrowed) or received (cash collateral on securities lent). The sale of securities received in a security borrowing transaction results in the recognition of a trading liability (short sale).

The CSS(E)L Group monitors the market value of the securities borrowed and lent on a daily basis and provides or requests additional collateral in accordance with the underlying agreements.

Fees are recognised on an accrual basis and interest received or paid is recognised on an effective yield basis and recorded as interest income or interest expense.

o) Income tax

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

and subsequently recognised in the Consolidated Statement of Income, the related income tax initially recognised in equity is also subsequently recognised in the Consolidated Statement of Income.

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

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

Deferred tax is provided using the Statement of Financial Position liability method, providing for temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and their tax-base. The amount of deferred tax provided is based on the amount at which it is expected to recover or settle the carrying amount of assets and liabilities on the Consolidated 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 Consolidated 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 may arise from the distribution of dividends are recognised at the same time as the liability to pay the related dividend arises. Information as to the calculation of income tax recognised in the Consolidated Statement of Income for the periods presented is included in Note 13 – Income Tax.

Tax contingencies

Significant judgement is required in determining the effective tax rate and in evaluating certain tax positions. The CSS(E)L Group may accrue for tax contingencies on a best estimate basis. Tax contingency accruals are adjusted due to changing facts and circumstances, such as case law, progress of tax authority audits or when an event occurs that requires 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.

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 CSS(E)L Group and the cost of the item can be reliably measured. All other repairs and maintenance are charged to the Consolidated Statement of Income during the financial period in which they are incurred.

Depreciation on assets is calculated using the straight-line method to allocate their cost to their residual values over their maximum useful lives, as follows:

Long leasehold buildings	67 years
Leasehold improvements	lower of lease term or useful life, generally not exceeding 10 years
Computer equipment	3–7 years
Office equipment	5 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 the Consolidated 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 the event of 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 'General, Administrative and Trading expenses' in the Consolidated Statement of Income.

r) Intangible assets

Intangible assets consist primarily of internally developed software. Expenditure on internally developed software is recognised as an asset when the CSS(E)L Group 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.

Internally developed software that is capitalised is depreciated on a straight-line basis over a maximum useful life of seven years. The amortisation of the intangible assets is included in the 'General, Administrative and Trading expenses' in the Consolidated Statement of Income.

The carrying amounts of the CSS(E)L Group's intangible assets are reviewed at each reporting date or when events or information indicate that the carrying value of the asset may no longer be appropriate to determine whether there is any indication of impairment. If any such indication exists, then the asset's recoverable amount is estimated. The recoverable amount of an asset is the greater of its value in use and its fair value less costs to sell. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. An impairment loss is recognised if the carrying amount of an asset exceeds its estimated recoverable amount. Impairment losses are recognised in the Consolidated Statement of Income.

s) Deposits

Deposits are funds held from customers (both retail and commercial) and banks, generally for the cash safekeeping and/or liquidity needs of those customers. Deposits are initially recognised at fair value and subsequently recognised at amortised cost, which represents the nominal values of the deposits less any unearned discounts or nominal value plus any unamortised premiums.

t) Provisions

Provisions are recognised for present obligations as a result of past events which can be reliably measured, where it is probable that an outflow of resources embodying economic benefits will be required to settle the obligations. The amount recognised as a provision is the best estimate of the consideration required to settle the present obligation as of the Consolidated 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 'General, Administrative and Trading expenses' on the Consolidated Statement of Income.

A provision for onerous contracts is measured at the present value of the lowest net cost of exiting from the contract, which is

the lower of the expected cost of terminating the contract and the expected cost of fulfilling it. Before a provision is established, the CSS(E)L Group recognises any impairment loss on the assets associated with that contract.

u) Debt in issuances

Debt in issuances are initially recognised on the date on which the cash is received and are measured at amortised cost or designated at fair value through profit or loss. Direct costs incurred upon the issuance of debt instruments designated at fair value through profit or loss is recognised as incurred in the respective non-interest expense classification relating to the expense incurred, e.g. legal expenses, printing and accounting fees. Debt instruments designated at fair value through profit or loss are disclosed as a separate line item on the face of the balance sheet.

Debt instruments issued by the entity which are not carried at fair value are recorded at par (nominal value) net of any premiums or discounts. Direct costs incurred with the issuance of the debt (debt issuance costs) are deferred and recorded as a direct deduction from the carrying amount of the related liability. Premiums and discounts and debt issue costs are amortised using the effective interest method.

The CSS(E)L Group issues structured products with embedded derivatives. A structured product that contains an embedded derivative is designated at fair value through profit or loss. The embedded contract would likely meet the definition of a derivative. If it is determined that the embedded derivative is not reliably measurable because it is settled in an unquoted equity instrument, the entire combined contract must be treated as a financial instrument held at fair value. It cannot be accounted for at amortised cost.

v) Disposal Groups and Discontinued Operations

A disposal group comprising assets and liabilities is classified as held for sale if it is highly probable that it will be recovered primarily through sale rather than through continuing use.

A disposal group is generally measured at the lower of its carrying amount and fair value less costs to sell. However, certain assets, such as deferred tax assets, assets arising from employee benefits, financial assets and the related liabilities are exempt from this measurement requirement. Rather, those assets and liabilities are measured in accordance with other applicable IFRSs. The disposal groups presented in CSS(E)L Group's Statement of Financial Position consist exclusively of assets and liabilities that are measured in accordance with other applicable IFRSs.

A discontinued operation is a component of CSS(E)L Group that either has been disposed of or is classified as held for sale and:

- (a) represents a separate major line of business or geographical area of operations;
- (b) is part of a single co-ordinated plan to dispose of a separate major line of business or geographical area of operations; or

- (c) is a subsidiary acquired exclusively with a view to resale.

Classification as a discontinued operation occurs at the earlier of disposal or when the operation meets the criteria to be classified as held for sale. When an operation is classified as a discontinued operation, the comparative Consolidated Statement of Income is re-presented as if the operation had been discontinued from the start of the comparative year.

w) Retirement benefit costs

The CSS(E)L Group has both defined contribution and defined benefit pension plans. The defined benefit plans are CSG schemes, in which the Company is the sponsoring entity. CSS(E)L Group's Defined Benefit Obligations ('DBO') are calculated using the projected unit credit method. Obligations for contributions to defined contribution pension plans are recognised as an expense in the Consolidated Statement of Income as incurred. Remeasurements of the net defined benefit liability are recognised immediately in Other Comprehensive Income ('OCI'). The CSS(E)L Group uses the spot rate approach for the valuation of the UK pension plan, whereby individual spot rates on the yield curve are applied to each year's cash flow in measuring the plan's benefit obligation as well as future service cost and interest costs. CSS(E)L Group determined the interest income on plan assets for the period by applying the single equivalent discount rate determined for the interest cost to the plan asset value. The service costs, net interest income and other expenses related to defined benefit plans are recognised in profit or loss.

When the benefits of a plan are changed or when a plan is curtailed, the resulting change in benefit that relates to past service or the gain or loss on curtailment is recognised immediately in the Consolidated Statement of Income. The CSS(E)L Group recognises gains and losses on the settlement of a defined benefit plan when the settlement occurs. The Company has no contractual agreement or stated policy for charging the net defined benefit cost to participating entities.

x) Share-based payments

The Company grants shares in its ultimate parent, Credit Suisse Group ('CSG') to certain employees. The Company pays for CSG shares at market value at the time of settlement to employees.

The share-based awards are classified as a cash-settled share based payment plan. A liability equal to the portion of the services received is recognised at the current market value determined at each balance sheet date.

The expense for share-based payments is determined by treating each tranche as a separate grant of share awards and is accrued over the vesting period for each tranche, unless the employee is eligible for early retirement or retirement before the end of the vesting period, in which case recognition of the expense would be accelerated over the shorter period.

Share awards are made to employees in one of the following ways:

- i) Phantom Share Awards;
- ii) Special Awards, which are typically awarded upon hiring of certain senior employees or in relation to business acquisitions. The terms (including amount, vesting, settlement, etc) of special awards vary significantly from award to award;
- iii) Performance Share Awards;
- iv) Contingent Capital share awards

Phantom shares and performance share awards are accrued over the vesting period, which generally range between 3 to 7 years. Certain awards vest at grant date and are therefore accrued fully at grant date. Special awards are accrued over the vesting period as per award terms.

Changes in foreign exchange and market value of the share plan obligations between grant date and settlement date are expensed within operating expenses. Total value of awards accrued and outstanding at end of the accounting period is classified as a liability.

Share awards granted between January 1, 2014 and December 31, 2015 do not include the right to receive dividend equivalents during the vesting period, while share awards granted after January 1, 2016 include the right to receive dividend equivalents.

y) Other compensation plans

The CSS(E)L Group 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.

z) Financial guarantee contracts (Accounting Policy for 2018)

Financial guarantee contracts require the issuer to make specified payments to reimburse the holder for a loss it incurs because a specified debtor fails to make payments when due in accordance with the terms of a debt instrument. Such financial guarantee contracts are given to banks, financial institutions and other parties on behalf of customers to secure loans, overdrafts and other payables.

Financial guarantee contracts are initially recognised in the Consolidated Financial Statements at fair value on the date the guarantee was given, which is generally the fee received or receivable.

Financial guarantees not measured at fair value through profit or loss are in scope of ECL impairment. The maximum contractual period over which the reporting entity has a present contractual obligation to extend credit should be considered as estimation period for measuring ECL, and not the period over which the entity expects to extend credit. This should take into consideration if a guarantee was contingent or cancellable.

The ECL would be based on the present value of the expected payments to reimburse the holder for a credit loss that it incurs under the guaranteed financial asset less any amounts that the entity expects to receive from the holder, the debtor or any other party. In Stage 1, the time horizon of a credit loss incurring is 12 months. In Stage 2 and 3, the time horizon is the lifetime of the guarantee contract.

If the asset is fully guaranteed, the estimation of cash shortfalls for a financial guarantee contract would be consistent with the estimations of cash shortfalls for the asset subject to the guarantee.

Any increase in the liability related to financial guarantee contracts is recorded in the Consolidated Statement of Income under 'Provision for credit losses'.

Financial guarantee contracts (Accounting policy applicable for 2017)

Financial guarantee contracts require the issuer to make specified payments to reimburse the holder for a loss it incurs because a specified debtor fails to make payments when due in accordance with the terms of a debt instrument. Such financial guarantee contracts are given to banks, financial institutions and other parties on behalf of customers to secure loans, overdrafts and other payables.

Financial guarantee contracts are initially recognised in the Consolidated Financial Statements at fair value on the date the guarantee was given, which is generally the fee received or receivable. Subsequent to initial recognition, the CSS(E)L Group's liabilities under such guarantees are measured at the higher of the initial fair value, less cumulative amortisation, and the best estimate for the expenditure required to settle any financial obligation arising as of the Statement of Financial Position date when it is probable that the financial obligation will occur. These estimates are determined based on experience with similar transactions and history of past losses, and management's determination of the best estimate. Any increase in the liability related to financial guarantee contracts is recorded in the Consolidated Statement of Income under 'Provision for credit losses'.

aa) Operating leases

The leases entered into by the CSS(E)L Group are exclusively operating leases. The total payments made under operating leases are charged to the Consolidated 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 early termination payment required to be made to the lessor is recognised as an expense in the period in which termination takes place. If leased premises are vacated before the minimum lease term ends, a provision for the remaining minimum lease payments, net of any expected sublease income, is recognised in the period in which the CSS(E)L Group makes the decision to leave the property. For lease incentive provided by the lessor, the CSS(E)L Group, as lessee, recognises the aggregate benefit as a reduction of rental expense over the lease term on a straight-line basis.

If the CSS(E)L Group 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.

Subleases

The subleases entered into by the CSS(E)L Group are exclusively operating leases. Sublease payments received are recognised through 'General, Administrative and Trading expenses' in the Consolidated Statement of Income on a straight-line basis over the period of the lease.

ab) Contingent liabilities

A contingent liability is an existing condition involving uncertainty as to possible loss to the entity that will ultimately be resolved when one or more future events occur or fail to occur. A contingent liability is not recognised as a liability but is disclosed (unless the possibility of an outflow of economic resources is remote), except for those acquired under business combinations, which are recognised at fair value.

ac) Recognition and derecognition

Recognition

The CSS(E)L Group recognises financial instruments on its Consolidated Statement of Financial Position when the CSS(E)L Group 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 CSS(E)L Group recognises regular-way purchases or sales of trading financial assets at the settlement date unless the instrument is a derivative.

Derecognition

The CSS(E)L Group enters into transactions where it transfers assets including securitisation assets, recognised on its Consolidated Statement of Financial Position, but retains either all risks and 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 Consolidated Statement of Financial Position. Transactions where substantially all risk

and rewards are retained include securities purchased or sold under repurchase agreements, securities borrowing and lending transactions, and sales of financial assets with concurrent return swaps on the transferred assets.

In transactions where the CSS(E)L Group 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 CSS(E)L Group 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 CSS(E)L Group derecognises a financial liability when its contractual obligations are discharged or cancelled or expire. Where the CSS(E)L Group has a financial asset or 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 is substantially modified, the old financial instrument is deemed to be extinguished and a new financial asset or liability is recognised. Any gain or loss due to derecognition of the extinguished instrument is recorded in the Consolidated 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 through earnings.

Securitisation

The CSS(E)L Group securitises assets, which generally results in the sale of these assets to structured entities, which in turn issue securities to investors. The transferred assets may qualify for derecognition in full or in part, under the above mentioned policy on derecognition of financial assets.

Interests in securitised financial assets may be retained in the form of senior or subordinated tranches, interest only strips or other residual interests (collectively referred to as 'retained interests'). Provided the CSS(E)L Group's retained interests do not result in consolidation of the structured entity, nor in continued recognition of the transferred assets, these retained tranches are typically recorded in 'Trading financial assets at fair value through profit or loss'. Gains or losses on securitisation are recognised in the Consolidated Statement of Income. The line item in the Consolidated Statement of Income, in which the gain or loss is presented, will depend on the nature of the asset securitised.

ad) Netting

The CSS(E)L Group only offsets financial assets and liabilities and presents the net amount on the Consolidated 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 CSS(E)L Group's net position on multiple bilateral OTC derivative transactions with the same counterparty is legally protected by Master Netting Agreements. Such agreements normally ensure that the net position is settled in the event of default of either counterparty and effectively limits credit risk on gross exposures.

However, because such contracts are not currently enforceable in the normal course of business and the transactions themselves are not intended to be settled net, nor will they settle simultaneously, it is not permissible under IAS 32 "Financial Instruments: Presentation" (IAS 32) to offset transactions falling under Master Netting Agreements. For certain derivative transactions cleared with a central clearing counterparty ('CCP'), the offsetting criteria under IAS 32 are met because the CSS(E)L Group has the

current legally enforceable right to set off (based on the offsetting provisions in the CCP rulebook) and the intention to settle net or simultaneously (considering the daily payment process with the CCP). For securities purchased or sold under resale agreements or repurchase agreements, such legally enforceable agreements qualify for offsetting under IAS 32, if the gross settlement mechanism for these transactions has features that eliminate or result in insignificant credit and liquidity risk and that will process receivables and payables in a single settlement process or cycle and will therefore meet the net settlement criterion as an equivalent.

ae) Dividends

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

3 Critical Accounting Estimates and Judgements in Applying Accounting Policies

In order to prepare the Consolidated Financial Statements in accordance with International Financial Reporting Standards as adopted by the EU ('Adopted IFRS'), management is required to make critical judgements. Also management makes certain accounting estimates to ascertain the value of assets and liabilities and determine the impact to the income statement. Judgements and estimates are based upon the information available at the time, and actual results may differ materially. The following critical judgements and, where applicable, estimations have the most significant effect on the amounts recognised in the financial statements.

Taxes

Deferred tax valuation

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

In making the key judgements to determine whether deferred tax assets 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 into account the history of losses of the Bank. The future taxable income can never be predicted with certainty, but management also evaluates the factors contributing to the losses and considers whether or not they are temporary or indicate an expected permanent decline in earnings. The critical accounting estimate 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 CSS(E)L Group's estimate of future taxable profits and potential restructurings, could lead to changes in the amount of deferred tax assets that are realisable, or considered realisable, and would require a corresponding adjustment to the level of recognised DTA.

→ Please see Note 14 – Deferred Taxes for more information.

Fair Value

A significant portion of the CSS(E)L Group's financial instruments (trading financial assets and liabilities, derivative instruments and financial assets and liabilities designated at fair value) are carried at fair value in the Consolidated Statement of Financial Position. Related changes in the fair value are recognised in the Consolidated Statement of Income. Deterioration of financial markets could significantly impact the fair value of these financial instruments and the results of operations.

The fair value of the majority of the CSS(E)L Group's financial instruments is based on quoted prices in active markets or observable inputs. These instruments include government and agency securities, certain commercial papers ('CP'), most

investment grade corporate debt, certain high grade debt securities, exchange-traded and certain over the counter ('OTC') derivative instruments and most listed equity securities.

In addition, the CSS(E)L Group holds financial instruments for which no prices are available and which have little or no observable inputs. For these instruments, the determination of fair value requires subjective assessment and key judgements to be made 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 key judgements about the assumptions that market participants would use in pricing the asset or liability, including assumptions about risk. These instruments include certain OTC derivatives, including equity and credit derivatives, life settlement contracts, certain corporate equity-linked securities, mortgage-related and Collateralised Debt Obligations ('CDO's'), securities, private equity investments, certain loans and credit products, (including leveraged finance, certain syndicated loans and certain high yield bonds).

The critical accounting estimate of 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 a counterparty, and are applied to both OTC derivatives and debt instruments.

The impact of changes in a counterparty's credit spreads (known as credit valuation adjustments or 'CVA') is considered when measuring the fair value of assets, the impact of changes in the CSS(E)L Group's own credit spreads (known as debit valuation adjustments or 'DVA') is considered when measuring the fair value of its liabilities, and the funding cost (known as funding valuation adjustment for 'FVA') is considered for OTC derivatives.

For OTC derivatives, the impact of changes in both the CSS(E)L Group's and the counterparty's credit standing is considered when measuring their fair value, based on current Credit Default Swaps ('CDS') prices. The adjustments also take into account contractual factors designed to reduce the CSS(E)L Group's credit exposure to a counterparty, such as collateral held and master netting agreements.

For hybrid debt instruments with embedded derivative features, a key judgement is made in regards to the impact of changes in the CSS(E)L Group's credit standing is considered when measuring their fair value, based on current funded debt spreads.

As of the end of 2018, 60.38% and 53.75% of CSS(E)L Group's total assets and total liabilities respectively, were measured at fair value (2017: 44.24% and 41.20%, respectively). Level 3 assets and Level 3 liabilities were USD 2.22 billion and USD 0.93 billion respectively as of the end of 2018 (2017: USD 2.74 billion and

USD 0.85 billion). As of the end of 2018, these assets comprised 2.33% of total assets (2017: 2.22%) and 1.06% of total liabilities (2017: 0.73%).

For further information on the fair value hierarchy and a description of CSS(E)L Group's valuation techniques, refer to Note 39 – Financial Instruments.

The CSS(E)L Group does not recognise a dealer profit or unrealised gains or losses at the inception of a derivative or non-derivative transaction unless the valuation underlying the unrealised gains or losses is evidenced by quoted market prices in an active market, observable prices of other current market transactions, or other observable data. The financial instrument is recognised at fair value with any profit or loss implied from the valuation technique at trade date is deferred and amortised over the life of the contract or over the period up to when the fair value is expected to become observable. For further information on the fair value hierarchy and a description of CSS(E)L Group's valuation techniques, refer to Note 39 – Financial Instruments.

Control processes are applied to ensure that the fair value of the financial instruments reported in the Company and CSS(E)L Group Financial Statements, including those derived from pricing models, are appropriate and determined on a reasonable basis. For further information related to the CSS(E)L Group's control and governance processes on the fair value of financial instruments please refer Note 39 – Financial Instruments.

Allowance and impairment losses financial instruments subject to expected credit loss model (Applicable to 2018)

The measurement of impairment losses across all categories of financial assets requires judgement, in particular, the estimation of the amount and timing of future cash flows and collateral values when determining impairment losses and the assessment of a significant increase in credit risk. These estimates are driven by a number of factors, changes in which can result in different levels of allowances. The CSS(E)L Group's ECL calculations are outputs of complex models with a number of underlying assumptions regarding the choice of variable inputs and their interdependencies. Elements of the ECL models that are considered key accounting judgements include:

- The CSS(E)L Group's internal credit grading model, which assigns PDs to the individual grades
- The CSS(E)L Group's quantitative and qualitative criteria for assessing if there has been a significant increase in credit risk and so allowances for financial assets should be measured on a lifetime ECL basis
- The segmentation of financial assets under the PD/LGD approach to estimate Stage 1 and Stage 2 ECLs
- The development of ECL models, including the various formulas and the choice of inputs
- The determination of the associations between macroeconomic scenarios and, economic inputs, such as unemployment levels and collateral values, and the effect on PDs, EADs and LGDs

- Selection of forward-looking macroeconomic scenarios and their probability weightings, to derive the economic inputs into the ECL models.
- It is the CSS(E)L Group's policy to regularly review its models for actual loss experience and adjust when necessary.

Allowances and impairment losses on other loans and receivables (Applicable to 2017)

As a normal part of its business, the CSS(E)L Group is exposed to credit risks through its lending relationships, commitments and letters of credit 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 CSS(E)L Group 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 CSS(E)L Group maintains allowances for loan losses which are considered adequate to absorb credit losses existing at the reporting date. These allowances are for incurred credit losses inherent in existing exposures and credit exposures specifically identified as impaired. The inherent loss allowance is for all credit exposures not specifically identified as impaired which, on a portfolio basis, are considered to contain incurred inherent losses. Loans are segregated by risk, industry or country rating in order to collectively estimate inherent losses. The loan valuation allowance for inherent loss is a critical account estimate that is established by analysing historical and current default probabilities, historical recovery assumptions and internal risk ratings. The methodology for calculating specific allowances involves key 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 CSS(E)L Group performs an in-depth review and analysis of impaired loans, considering factors such as recovery and exit options as well as considering collateral and counterparty risk. In general, all impaired loans are individually assessed. Corporate & Institutional loans are reviewed at least annually based on the borrower's financial statements and any indications of difficulties they may experience. Loans that are not impaired, but which are of special concern due to changes in covenants, downgrades, negative financial news and other adverse developments, are included on a watch list. All loans on the watch list are reviewed at least quarterly and a key judgement is made to determine whether they should be moved to CSS(E)L Group 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. Thereafter, the allowance is revalued by CSS(E)L Group credit risk management at least annually or more frequently depending on the risk profile of the borrower or credit relevant events.

Disposal Group and Discontinued Operations

The classification of assets and liabilities as a disposal group held for sale and the related presentation of discontinued operations requires a judgement by management, as to whether it is highly probable that the assets and liabilities will be recovered primarily through a sale, rather than through continuing use. For management to consider a sale to be highly probable, it must make the key judgement to determine if it is committed to a plan to sell the disposal group and an active programme to locate a buyer and complete the plan must have been initiated. Further, the disposal group must be actively marketed for sale at a price that is reasonable in relation to its current fair value. The key judgement performed by management focuses on the timing of these plans within the wider strategic plan of the company and the reduction plans of the SRU. The sale should be expected to qualify for recognition as a completed sale within one year from the date of classification and actions required to complete the plan should indicate that it is unlikely that significant changes to the plan will be made or that the plan will be withdrawn. Events or circumstances may extend the period to complete the sale beyond one year. The estimate of the time period required until the transfer of a disposal group held for sale is recognised as a completed sale represents a critical accounting estimate. Note 28 – Discontinued Operations and Assets Held for Sale discloses those disposal groups for which management expects that a completed sale will be recognised within one year or for which events or circumstances have extended the period to complete the sale beyond one year.

Retirement Benefit Costs

The following relates to the assumptions the Company, as sponsor of the defined benefit plans, has made in arriving at the valuations of the various components of the defined benefit plans.

The calculation of the expense and liability associated with the defined benefit pension plans requires the use of key judgements, which include the discount rate and rate of future compensation increases as determined by the Company. Management determines these key judgements based upon currently available market and industry data and the 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 the Company 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 benefit cost recorded in future years.

The discount rate used in determining the benefit obligation and the benefit cost is a critical accounting estimate that is based on yield curves, constructed from high-quality corporate bonds. Credit Suisse uses the spot rate approach for the valuation of the UK Plan, whereby individual spot rates on the yield curve are

applied to each year's cash flow in measuring the plan's benefit obligation as well as future service costs and interest costs.

→ Please see Note 32 – Retirement Benefit Obligations for more information.

Share-based payments

The CSS(E)L Group uses the liability method to account for its share-based payment plans, which requires the CSS(E)L Group'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 estimated based on the marked-to-market of the latest share price information reflecting the terms of the award. Share unit awards that contain earnings performance conditions are estimated based on the marked-to-market of CSG's actual earnings performance to date and CSG's internal earnings projections over the remaining vesting period of the award. In determining the final liability, CSG 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.

→ Please see Note 33 – Employee Share-based Compensation and Other Compensation Benefits for more information.

Contingencies and loss provisions

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

→ Please see Note 12 – Restructuring Expenses and Note 26 – Provisions for more information.

Litigation contingencies

The CSS(E)L Group 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, which seek damages of unspecified or indeterminate amounts or which involve questionable legal claims. A provision is recognised if, and only if a present obligation (legal or constructive) has arisen as a result of

a past event (the obligating event). In presenting the Consolidated Financial Statements, management makes critical accounting 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 key 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 CSS(E)L Group's defences and its experience in similar cases or proceedings, as well as the CSS(E)L Group's assessment of matters, including settlements, involving other defendants in similar or related cases or proceedings.

→ Please see Note 26 – Provisions for more information.

Structured Entities

As part of normal business, the CSS(E)L Group engages in various transactions that include entities which are considered structured entities. A structured entity is an entity that has been designed so that voting or similar rights are not the dominant factor in deciding who controls the entity, such as when any voting rights relate to administrative tasks only and the relevant activities are directed by means of contractual arrangements.

Transactions with structured entities are generally executed to facilitate securitisation activities or to meet specific client needs, such as providing liquidity or investment opportunities, and, as part of these activities, the CSS(E)L Group may hold interests in the structured entities. If the CSS(E)L Group controls the structured entity then that entity is included in the CSS(E)L Group's consolidated financial statements. The CSS(E)L Group discloses information about significant key judgements and assumptions made in determining whether the CSS(E)L Group has (joint) control of, or significant influence over, another entity including structured entities. The CSS(E)L Group also provides disclosures with regards to unconsolidated structured entities such as when it sponsors or has an interest in such an entity.

→ Please see Note 38 – Interests in Other Entities for more information.

4 Net Interest Expense

	2018	2017 ¹
Net interest expense (USD million)		
Securities purchased under resale agreements and securities borrowing transactions	1,013	979
Other	319	136
Interest income	1,332	1,115
Deposits	(6)	(3)
Securities sold under repurchase agreements and securities lending transactions	(933)	(717)
Borrowings	(56)	(52)
Debt in Issuance	(237)	(320)
Other	(242)	(179)
Interest expense	(1,474)	(1,271)
Net interest expense	(142)	(156)
of which		
Interest income of Financial assets measured at fair value through profit or loss	542	448
Interest income of Financial assets measured at amortised cost	790	667
Interest expenses of Financial liabilities measured at fair value through profit or loss	(460)	(300)
Interest expenses of Financial liabilities measured at amortised cost	(1,014)	(971)

¹ 2017 numbers have been restated to conform to the current year's presentation.

For the securities purchased under resale agreements and securities borrowing transactions if the interest rate is negative the associated interest expense is recorded in interest expense.

For securities sold under repurchase agreements and securities lending transactions if the interest rate is negative the associated interest income is recorded in interest income.

5 Net Commission and Fee Income

	2018	2017
Commission and fee income/(expense) (USD million)		
Underwriting	177	268
Brokerage	182	370
Underwriting and brokerage	359	638
Other customer services	84	28
Total commission and fee income	443	666
Brokerage	–	(103)
Other customer services	–	(45)
Total commission and fee expense	–	(148)
Net commission and fee income	443	518

Income under other customer services primarily consists of research income fees, fees from mergers and acquisitions and advisory services.

The adoption of IFRS 15 resulted in certain brokerage fees paid in an agency capacity reclassified from Brokerage Commission

and Fee expenses to Brokerage Commission and Fee Income on a prospective basis from 1 January 2018. This primarily related to where the CSS(E)L group acts an agent when buying or selling exchange traded securities, exchange traded derivatives or centrally cleared OTC derivatives on behalf of customers.

6 Revenue from Contracts with Customers

Nature of services

The following is a description of the principal activities from which the CSS(E)L Group generates its revenues from contracts with customers.

The performance obligations are typically satisfied as the services in the contract are rendered. The contract terms are generally such that they do not result in any contract assets. The contracts generally do not include a significant financing component or obligations for refunds or other similar obligations. Any variable consideration is only included in the transaction price and recognised as revenue when it is probable that a significant reversal of cumulative revenue recognised will not occur when the uncertainty associated with the amount is subsequently resolved.

The CSS(E)L Group's capital markets businesses underwrite and sell securities on behalf of customers. Typically, the fees in these businesses are recognised at a single point in time once the transaction is complete, i.e. when the securities have been placed with investors, and recognised as underwriting revenue. All expenses incurred in satisfying the performance obligation are deferred and recognised once the transaction is complete.

Generally the CSS(E)L Group and other banks form a syndicate group to underwrite and place the securities for a customer. The CSS(E)L Group may act as the lead or a participating member in the syndicate group. Each member of the syndicate group, including the lead and participating underwriters, is acting as principal for their proportionate share of the syndication. As a result, the individual underwriters reflect their proportionate share of underwriting revenue and underwriting costs on a gross basis.

The CSS(E)L Group also offers brokerage services in its investment banking businesses, including global securities sales, trading and execution and investment research. For the services provided, for example the execution of customer trades in securities or derivatives, CSS(E)L Group typically earns a brokerage commission when the trade is executed. CSS(E)L Group generally acts as an agent when buying or selling exchange-traded cash securities, exchange-traded derivatives or centrally cleared OTC derivatives on behalf of customers. Research income is disclosed under 'other customer services'.

The following table explains disaggregation of the revenue from service contracts with customers into different categories:

Type of Services (USD million)	2018 ¹
Underwriting	177
Brokerage	182
Other customer services	84
Transfer pricing arrangements	136
Total	579

¹ The disclosure is applicable under IFRS 15. The CSS(E)L Group has not presented comparative information for the prior period. The table above differs from Note 5 – Net Commission and Fee income as it includes only those contracts with customers that are in scope of IFRS 15 – Revenue from contracts with customers. Above table includes both continued and discontinued operations.

The impact of adoption of IFRS 15 on the CSS(E)L Group's consolidated statement of operations for the year period ended December 31, 2018 (includes continued and discontinued operations) resulted in a decrease in commissions and fee of USD

26 million, an increase in other revenues of USD 222 million, an increase in general and administrative expenses of USD 193 million and increase in other interest and fees receivable of USD 3 million.

Contract Balances (USD million)	2018
Receivables	13
Contract liabilities	3

The CSS(E)L Group did not recognise any revenues in the reporting period from performance obligations satisfied in previous periods.

The CSS(E)L Group did not recognise a net impairment loss on contract receivables and did not recognise any contract assets during 2018.

Remaining performance obligations

The practical expedient allows the CSS(E)L Group to exclude from its remaining performance obligations disclosure of any performance obligations which are part of a contract with an original expected duration of one year or less. Additionally any variable consideration, for which it is probable that a significant reversal in the amount of cumulative revenue recognised will occur when

the uncertainty associated with the variable consideration is subsequently resolved, is not subject to the remaining performance obligations disclosure because such variable consideration is not included in the transaction price (e.g. investment management

fees). Upon review, the CSS(E)L Group determined that no material remaining performance obligations are in scope of the remaining performance obligations disclosure.

7 Release of provision for credit losses

	2018	2017
Release of provision for credit losses (USD million)		
Release of provision for credit losses	3	–
Release of provision for credit losses	3	–

8 Net Gains from Financial Assets/Liabilities at Fair Value through Profit or Loss

	2018
Net gains/(losses) from financial assets/liabilities at fair value through profit or loss (USD million)	
Net gains/(losses) from financial assets/liabilities mandatorily measured at fair value through profit or loss	941
Net gains/(losses) from financial liabilities designated at fair value through profit or loss	(122)
Total net gains/(losses) from financial assets/liabilities at fair value through profit or loss	819

	2018
Trading financial assets/ liabilities mandatorily measured at fair value through profit or loss (USD million)	
Interest rate	139
Foreign exchange	(243)
Equity	1,061
Other	100
Total net gains/(losses) from trading financial assets/liabilities mandatorily measured at fair value through profit or loss	1,057
Non-trading financial assets mandatorily measured at fair value through profit or loss (USD million)	
Other financial assets	(116)
Total net (losses)/gains from non-trading financial assets mandatorily measured at fair value through profit or loss	(116)
Total net gains/(losses) from financial assets/liabilities mandatorily measured at fair value through profit or loss	941

	2018
Net gains/(losses) from financial liabilities designated at fair value through profit or loss (USD million)	
Debt in issuance	6
Other financial liabilities designated at fair value through profit or loss	(128)
Total net gains/(losses) from financial liabilities designated at fair value through profit or loss	(122)

2017

Net gains/(losses) from financial assets/liabilities at fair value through profit or loss (USD million)

Interest rate	128
Foreign exchange	627
Equity	(349)
Net income on trading financial assets and trading financial liabilities	223
Other	43
Total net gains from financial assets/liabilities at fair value through profit or loss	672

Of which:

Net gains/(losses) from financial assets/liabilities designated at fair value through profit or loss (USD million)

Securities purchased under resale agreements and securities borrowing transactions	1
Other financial assets designated at fair value through profit or loss	(29)
of which related to credit risk	–
Securities sold under repurchase agreements and securities lending transactions	(1)
Debt in issuance	7
Other financial liabilities designated at fair value through profit or loss	(6)
Total net gains/(losses) from financial assets/liabilities at fair value through profit or loss	(28)

9 Other revenues/(expenses)

2018¹ 2017**Other revenues (USD million)**

Transfer pricing arrangements	131	(87)
Other	5	26
Total other revenues	136	(61)

¹ The impact of adoption of IFRS 15 resulted in an increase in transfer pricing arrangements revenue by USD 180 million. Refer Note 6 – Revenue from Contracts with Customers for further details

The transfer pricing arrangements reflect the revenues allocated to CSS(E)L Group from other companies in the CS group under transfer pricing policies. In prior periods both revenues

and expenses related to transfer pricing arrangements had been presented in Other Revenues which resulted in a net expense for 2017.

10 Compensation and Benefits

2018 2017

Compensation and benefits (USD million)

Salaries and variable compensation	(221)	(437)
Social security	(42)	(67)
Pensions	(5)	(1)
Other	–	(15)
Total compensation and benefits	(268)	(520)

Included in the previous table are amounts relating to Directors' remuneration. Further details are disclosed in Note 34 – Related Parties. Staff costs and staff numbers do not differ between CSS(E)L Group and Company.

Decrease in salaries and variable compensation is due to the movement of resources to other entities within the UK (mainly Credit Suisse International and Service Co) as well as the current

Strategic Cost Reduction Program that has seen a reduction of roles in the UK.

The CSS(E)L Group incurs compensation and benefits costs which are recharged to the relevant CS group companies through 'Expenses receivable from other Credit Suisse group companies' in Note 11 – General, Administrative and Trading Expenses.

11 General, Administrative and Trading Expenses

	Reference to note	2018	2017
General, administrative and trading expenses (USD million)			
Brokerage charges and clearing house fees		(381) ¹	(144)
Trading expenses		(381)	(144)
Occupancy expenses		(91)	(99)
IT and machinery		(118)	(122)
Provisions	26	(15)	(73)
Travel and entertainment		(9)	(11)
Auditors' remuneration		(2)	(2)
Professional services		(301)	(366)
Transfer pricing arrangements		(180) ¹	-
UK Bank levy		(12)	(18)
Non income taxes		(44)	(112)
Marketing data, publicity and subscription		(22)	(22)
Communication expenses		(20)	(22)
Other		(5)	(10)
General and administrative expenses		(819)	(857)
Expenses receivable from other Credit Suisse group companies		172	95
Total General, administrative and trading expenses		(1,028)	(906)

¹ The impact of adoption of IFRS 15 resulted in a decrease in brokerage charges and clearing house expenses of USD 23 million and increase in transfer pricing arrangements of USD 180 million. Refer Note 6 – Revenue from Contracts with Customers for further details.

The CSS(E)L Group incurs expenses on behalf of other CS group companies under common control. These are subsequently recharged to the relevant companies through 'Expenses receivable from other CS group companies'. The recharges comprise of compensation and benefit expenses and general administrative expenses. See Note 34- Related Parties. Professional Services include charges on account of all corporate function staff who perform multiple material legal entity critical functions and critical service contracts from June 2017. Credit Suisse Services AG, London Branch charge professional fees for these external

services. Increase in brokerage charges and clearing house fees is primarily driven from lower discontinued operations in the current year.

Auditor's remuneration

Auditor's remuneration in relation to the statutory audit amounted to USD 1.06 million (2017: USD 1.13 million).

The following fees were payable by the CSS(E)L Group to the auditor, KPMG LLP.

CSS(E)L Auditor's Remuneration (USD '000)	2018	2017
Fees payable to CSS(E)L Group's auditor for the audit of the CSS(E)L Group's annual accounts	(1,067)	(1,131)
Fees payable to CSS(E)L Group's auditor and its associates for other services	(53)	(42)
Audit-related assurance services	(652)	(582)
Other assurance services	(34)	(109)
Total Fees	(1,806)	(1,864)

12 Restructuring Expenses

In connection with the strategic review of the CS group, restructuring expenses of USD 28 million (2017: USD 34 million) were recognised during 2018. Restructuring expenses include

termination costs, expenses in connection with the acceleration of certain deferred compensation awards.

	2018	2017
Restructuring expenses by type (USD million)		
Compensation and benefits-related expenses	(9)	(26)
of which severance	(9)	(17)
of which accelerated deferred compensation	–	(9)
General and administrative-related expenses	(19)	(8)
Total Restructuring expenses by type	(28)	(34)

	2018	2017
Restructuring provision (USD million)		
Severance expenses		
Balance at beginning of period	10	13
Net additional charges	9	17
Utilisation	(16)	(20)
Balance at end of period	3¹	10

¹ The restructuring liability as shown in the table above have been included in Note 20 – Other Assets and Other Liabilities. Other general & administrative expenses related expenses of USD 19 million relates to other than property expenses are not included in table above.

Liabilities arising due to acceleration of expense accretion relating to unsettled share based compensation of USD (0.6) million (2017 : USD 7.3 million) and unsettled cash based deferred compensation of USD 0.8 million (USD 1.1 million) have been

included in 'Share-based compensation liability' and 'Others', respectively in Note 20 – Other Assets and Other Liabilities. The settlement date for the unsettled share-based compensation remains unchanged.

13 Income Tax

CSS(E)L Group and Company	2018	2017
Current and deferred taxes (USD million)		
Current tax expense for the period ¹	(41)	(28)
Adjustments in respect of previous periods	2	58
Income tax (expense)/benefit	(39)	30
Deferred tax		
Origination and reversal of temporary differences	(23)	(87)
Adjustments in respect of previous periods	(1)	(1)
Deferred income tax expense	(24)	(88)
Income tax expense	(63)	(58)

¹ Withholding taxes are included within income taxes.

Current tax of USD Nil (2017: USD Nil) and deferred tax of USD 3 million (2017: USD 2 million) were debited directly to equity.

→ Further information about deferred income tax is presented in Note 14 – Deferred Taxes.

Reconciliation of taxes computed at the UK statutory rate

CSS(E)L Group and Company	2018	2017
Reconciliation of taxes computed at the UK statutory rate (USD million)		
(Loss)/Profit before tax	(50)	(391)
(Loss)/ Profit before tax multiplied by the UK statutory rate of corporation tax @ 19% (2017: 19.25%)	9	75
Other permanent differences	(16)	10
Impact of UK bank corporation tax surcharge	–	35
Non-recoverable foreign taxes including withholding taxes	(59) ¹	(84) ¹
Adjustments to current tax in respect of previous periods	2	58
Adjustments to deferred tax in respect of previous periods	(1)	(1)
Net impact of deferred tax not recognised	–	(139)
Other movements in deferred tax for current period	15	–
Effect of group relief surrendered for consideration at less than statutory rate	(13)	(16)
Other	–	4
Income tax expense	(63)	(58)

¹ Withholding taxes are included within income taxes.

14 Deferred Taxes

Deferred taxes are calculated on all temporary differences under the liability method using a recoverable tax rate of 25% (2017: 25%) which includes the impact of the UK banking surcharge. Deferred taxes are calculated on carry forward tax losses using recoverable tax rates of 17% or 25% (2017: 17% or 25%).

Legislation has been enacted which reduces the UK corporation tax rate to 17% with effect from 1 April 2020.

There are restrictions on the use of tax losses carried forward. However, these are not expected to have a material impact on the recoverability of the net deferred tax asset.

CSS(E)L Group and Company	2018	2017
Deferred tax (USD million)		
Deferred tax assets	8	10
Deferred tax liabilities	(145)	(127)
Net position	(137)	(117)
Balance at 1 January, net position	(117)	(34)
(Debit)/Credit to income for the year	(23)	(87)
Tax booked to other comprehensive income	3	2
Adjustments related to the previous year	(1)	(1)
Other movements	1	–
Exchange differences	–	3
Balance at 31 December, net position	(137)	(117)

Deferred tax assets and liabilities are attributable to the following items:

Components of net deferred tax assets

CSS(E)L Group and Company	2018	2017
Components of net deferred tax assets (USD million)		
Share-based compensation	29	63
Decelerated tax depreciation	–	31
Other short term temporary differences	27	28
Tax losses	48	16
Deferred tax assets netted against deferred tax liabilities	(96)	(128)
Balance at 31 December	8	10

Components of net deferred tax liabilities

CSS(E)L Group and Company	2018	2017
Components of deferred tax liabilities (USD million)		
Pensions and other post-retirement benefits	(241)	(255)
Deferred tax liabilities netted against deferred tax assets	96	128
Balance at 31 December	(145)	(127)

Details of the tax effect of temporary differences

The deferred tax benefit in the Statement of Income comprises the following temporary differences:

CSS(E)L Group and Company	2018	2017
Tax effect of temporary differences (USD million)		
Share-based compensation	(34)	(37)
Decelerated tax depreciation	(31)	1
Other short term temporary differences	(2)	(8)
Tax losses	32	(13)
Pensions and other post-retirement benefits	11	(30)
Total deferred tax (expense)/benefit in the Statement of Income	(24)	(87)

The deferred tax expense in Other Comprehensive Income related to:

CSS(E)L Group and Company	2018	2017
Tax expense in Other Comprehensive Income (USD million)		
Defined benefit Liability/(Asset)	3	2
Total deferred tax benefit/(expense) in the Statement of Other Comprehensive Income	3	2

Following management's evaluation of the deferred tax asset recoverability as at the balance sheet date, deferred tax assets of USD 876 million have not been recognised (2017: USD 896 million). If strategies and business plans will significantly deviate

in the future from current management assumptions, the current level of deferred tax assets may need to be adjusted if full recovery of the remaining DTA balance is no longer probable.

15 Securities Borrowed, Lent and Purchased/Sold under Resale/ Repurchase Agreements

The following table summarises the financial assets resulting from the securities purchased under resale agreements, at their respective carrying values:

CSS(E)L Group and Company	2018	2017
Securities purchased under resale agreements and securities borrowing transactions (USD million)		
Securities purchased under resale agreements	6,963	11,751
Deposits paid for securities borrowed	9,309	10,974
Total Securities purchased under resale agreements and securities borrowing transactions	16,272	22,725

The following table summarises the financial liabilities resulting from the securities lent under repurchase agreements and securities lending transactions, at their respective carrying values:

CSS(E)L Group and Company	2018	2017
Securities sold under repurchase agreements and securities lending transactions (USD million)		
Securities sold under repurchase agreements	–	118
Deposits received for securities lent	6,045	14,150
Total Securities sold under repurchase agreements and securities lending transactions	6,045	14,268

See Note 17 – Non Trading Financial Assets Mandatorily at Fair Value Through Profit or Loss and Note 18 – Financial Assets and Liabilities Designated at Fair Value Through Profit or Loss for Securities Borrowed, Lent and Purchased/Sold under Resale/ Repurchase Agreements that are measured at fair value.

Securities Borrowed, Lent and Purchased/Sold under Resale/ Repurchase Agreements are mainly due within one year.

Resale and repurchase agreements represent collateralised financing transactions used to earn net interest income, increase liquidity or facilitate trading activity. These instruments are

collateralised principally by government securities and money market instruments and have terms ranging from overnight to a longer or unspecified period of maturity (generally maturing within one year). The CSS(E)L Group monitors the fair value of securities received or delivered. For securities purchased under resale agreements, the CSS(E)L Group 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, when appropriate, in response to an increase in the market value of securities sold under repurchase agreements.

16 Trading Financial Assets and Liabilities Mandatorily at Fair Value Through Profit or Loss

	CSS(E)L Group		Company	
	2018	2017	2018	2017
Trading financial assets at fair value through profit or loss (USD million)				
Debt securities	1,865	2,473	1,865	2,473
Equity securities	12,473	16,703	12,473	16,703
Derivative instruments	5,307	3,956	5,313	3,967
Total trading financial assets at fair value through profit or loss	19,645	23,132	19,651	23,143
Trading financial liabilities at fair value through profit or loss (USD million)				
Debt securities	1,636	2,072	1,636	2,072
Equity securities	10,616	6,359	10,616	6,359
Derivative instruments	5,589	4,185	5,576	4,156
Total trading financial liabilities at fair value through profit or loss	17,841	12,616	17,828	12,587

Debt securities primarily consist of corporate bonds and government securities.

Trading financial assets include USD 7,685 million (2017: USD 14,247 million) which are encumbered, representing debt and equity securities from both continued and discontinued

operations. Refer Note 40 – Assets Pledged or Assigned. The transactions in relation to the encumbered assets are conducted under terms that are usual and customary for securities lent, resale agreements or other collateralised borrowings.

17 Non-Trading Financial Assets Mandatorily at Fair Value through Profit or Loss

	CSS(E)L Group	Company
	2018	2018
Non-trading financial assets mandatorily at fair value through profit or loss (USD million)		
Securities purchased under resale agreements and securities borrowing transactions	36,405	36,405
Other non-trading financial assets mandatorily at fair value through profit or loss	1,132	1,111
Total non-trading financial assets mandatorily at fair value through profit or loss	37,537	37,516

For the change in fair value of reverse repurchase agreements, the CSS(E)L Group's credit exposure to the counterparties of these trades is mitigated by posted collateral and through subsequent margin calls. Accordingly, the CSS(E)L Group does not enter into hedges to mitigate credit exposure to the counterparties. Also, given that the credit exposure is eliminated to a large extent, the mark-to-market changes attributable to credit risk are insignificant.

Other non-trading financial assets mandatorily at fair value through profit or loss are exposed to credit risk and the maximum fair value maximum exposure to credit risk as at 31 December 2018 for the CSS(E)L Group as well as the Company equals their fair value.

The movement in fair values that is attributable to changes in the credit risk of the financial assets mandatorily at fair value through profit or loss during the period ended 31 December 2018 was

USD 1 million for CSS(E)L Group and Company in the Statement of Income. The remaining changes in fair value are mainly due to movements in market risk.

Central to the calculation of fair value for life settlement contracts, included in 'Other non-trading financial assets mandatorily at fair value through profit or loss', is the estimate of mortality rates. Individual mortality rates are typically obtained by multiplying a base mortality curve for the general insured population provided by a professional actuarial organisation together with an individual-specific multiplier. Individual-specific multipliers are determined based on data obtained from third-party life expectancy data providers, which examine insured individual's medical conditions, family history and other factors to arrive at a life expectancy estimate.

18 Financial Assets and Liabilities Designated at Fair Value Through Profit or Loss

	CSS(E)L Group	Company
	2017	2017
Financial assets designated at fair value through profit or loss (USD million)		
Securities purchased under resale agreements and securities borrowing transactions	23,749	23,749
Other financial assets designated at fair value through profit or loss	1,523	1,465
Total financial assets designated at fair value through profit or loss	25,272	25,214

Of the financial assets designated at fair value through profit or loss, securities purchased under resale agreements and securities borrowing transactions were elected to alleviate an accounting mismatch while other financial assets designated at fair value through profit or loss were elected because they are managed on a fair value basis.

For the change in fair value of reverse repurchase agreements, the CSS(E)L Group's credit exposure to the counterparties of these trades is mitigated by posted collateral and through subsequent margin calls. Accordingly, the CSS(E)L Group does not enter into hedges to mitigate credit exposure to the counterparties. Also, given that the credit exposure is eliminated to a large extent, the mark-to-market changes attributable to credit risk are insignificant.

Other financial assets designated at fair value through profit or loss are exposed to credit risk and the maximum fair value maximum exposure to credit risk as at 31 December 2017 for the CSS(E)L Group as well as the Company equals their fair value.

The movement in fair values that is attributable to changes in the credit risk of the financial assets designated at fair value through profit or loss during the period ended 31 December 2017 was USD 4 million for CSS(E)L Group and Company in the Statement of Income. The remaining changes in fair value are mainly due to movements in market risk.

Central to the calculation of fair value for life settlement contracts, included in 'Other financial assets designated at fair value through profit or loss', is the estimate of mortality rates. Individual mortality rates are typically obtained by multiplying a base mortality curve for the general insured population provided by a professional actuarial organisation together with an individual-specific multiplier. Individual-specific multipliers are determined based on data obtained from third-party life expectancy data providers, which examine insured individual's medical conditions, family history and other factors to arrive at a life expectancy estimate.

	CSS(E)L Group		Company	
	2018	2017	2018	2017
Financial liabilities designated at fair value through profit or loss (USD million)				
Securities sold under repurchase agreements and securities lending transactions	28,927	28,111	28,927	28,111
Debt in issuance	228	345	220	335
Other financial liabilities designated at fair value through profit or loss	141	–	130	–
Total financial liabilities designated at fair value through profit or loss	29,296	28,456	29,277	28,446

Of the financial liabilities designated at fair value through profit or loss, securities sold under repurchase agreements and securities lending transactions were elected to alleviate an accounting mismatch while debt in issuance were elected because they are managed on a fair value basis.

The fair value of a financial liability incorporates the credit risk of that financial liability. If the instrument is quoted in an active market, the movement in fair value due to credit risk is calculated as the amount of change in fair value that is not attributable to changes in market conditions that give rise to market risk. If the instrument is not quoted in an active market, the fair value

is calculated using a valuation technique that incorporates credit risk by discounting the contractual cash flows on the debt using a credit-adjusted yield curve which reflects the level at which the CSS(E)L Group would issue similar instruments as of the reporting date.

The carrying amount of debt in issuance is USD 6 million lower than the principal amount that the CSS(E)L Group and Company would be contractually required to pay to the holder of these financial liabilities at maturity (2017: USD 34 million higher (CSS(E)L Group and Company)).

19 Financial Assets Available-For-Sale

CSS(E)L Group and Company

2017

Financial assets available-for-sale (USD million)

Equity securities available-for-sale	39
Total securities available-for-sale	39
Total financial assets available-for-sale	39

Equity securities includes investments in non-marketable exchanges and financial clearing houses whereby the CSS(E)L Group and Company are not required to hold shares as part of its membership, for which the CSS(E)L Group and Company have neither significant influence nor control over the investee. These securities were held at fair value with any unrealised gains or losses taken through equity.

Financial assets available for sale category is no longer applicable under IFRS 9. Accordingly, securities aggregating USD 39 million were transferred from 'available for sale' category to 'Non-trading assets mandatorily at fair value through profit or loss' with the implementation of IFRS 9. These securities were being managed on a fair value basis and have been sold subsequent to the year end.

CSS(E)L Group and Company

Equity securities available-for-sale (USD million)

	Amortised cost	Gross unrealised gains	Fair Value
31 December 2017	–	35	39

20 Other Assets and Other Liabilities

	CSS(E)L Group		Company	
	2018	2017	2018	2017
Other assets (USD million)				
Brokerage receivables (refer to Note 21)	5,213	3,803	5,211	3,803
Interest and fees receivable	1,105	1,038	1,105	1,038
Cash collateral on derivative and non-derivative instruments	2,387	2,118	2,387	2,118
Banks	1,043	1,032	1,043	1,032
Customers	1,344	1,086	1,344	1,086
Prepaid expenses	11	3	11	3
Other	1,353	1,087	1,340	1,099
Total other assets	10,069	8,049	10,054	8,061

Other assets are mainly due within one year.

	CSS(E)L Group		Company	
	2018	2017	2018	2017
Other liabilities (USD million)				
Brokerage payables (refer to Note 21)	2,883	2,196	2,883	2,196
Interest and fees payable	1,090	1,113	1,090	1,113
Cash collateral on derivative and non-derivative instruments	9,884	13,417	9,884	13,417
Banks	6,165	8,576	6,165	8,576
Customers	3,719	4,841	3,719	4,841
Share-based compensation liability	108	122	108	122
Other	650	572	645	558
Total other liabilities	14,615	17,420	14,610	17,406

Cash collateral on non-derivatives for 2018 includes financial guarantees which have been cash collateralised of USD 4,087 million (2017: USD 6,000 million) provided by Credit Suisse AG London branch to reduce regulatory capital charges on related party exposures. Included in above are Other Loans and

Receivables, none of which are past due. Other liabilities include liability towards restructuring cost of USD 3 million (2017 : USD 10 million).

→ Refer Note 12- Restructuring Expenses.

21 Brokerage Receivables and Brokerage Payables

The CSS(E)L Group recognises receivables and payables from transactions in financial instruments purchased from and sold to customers, banks, brokers and dealers. The CSS(E)L Group is exposed to a risk of loss resulting from the inability of counterparties to pay for or deliver financial instruments sold or purchased, in which case the CSS(E)L Group would have to sell or purchase,

respectively, these financial instruments at prevailing market prices. To the extent that an exchange or clearing organisation acts as a counterparty to a transaction, credit risk is considered to be reduced. The CSS(E)L Group requires customers to maintain margin collateral in compliance with applicable regulatory and internal guidelines.

CSS(E)L Group and Company	2018	2017	2018	2017
Brokerage receivables (USD million)				
Due from customers	1,549	1,112	1,547	1,112
Due from banks, brokers and dealers	3,664	2,691	3,664	2,691
Total brokerage receivables	5,213	3,803	5,211	3,803
Brokerage payables (USD million)				
Due to customers	960	919	960	919
Due to banks, brokers and dealers	1,923	1,277	1,923	1,277
Total brokerage payables	2,883	2,196	2,883	2,196

Brokerage receivables and payables include transactions in financial instruments purchased from and sold to customers, banks, brokers and dealers which have not settled as at the reporting date (excluding debt and equity securities which have not reached their settlement date as these are recognised on settlement date of the transaction), receivables and payables from the Prime Brokerage business and cash collateral from futures trading.

Included within payables are liabilities identified in respect of either initial margin or client money received from clients, but only

where it has been determined that the cash received represents an asset of the CSS(E)L Group. The CSS(E)L Group and Company held USD 608 million of client money as at 31 December 2018 (2017: USD 1,899 million), USD 189 million as of 31 December 2018 (2017: USD 810 million) of which was not recorded in the Consolidated Statement of Financial Position as those balances did not represent assets of the CSS(E)L Group and Company. This cash, when recognised on the Statement of Financial Position, is recorded under 'Cash and due from banks' and 'Other assets'.

22 Property and Equipment

CSS(E)L Group and Company	Leasehold Improvements	Equipment	Total
2018 (USD million)			
Cost			
Cost as at 1 January 2018	3	15	18
Additions	–	–	–
Disposals	–	–	–
Other movements	–	(1)	(1)
Cost as at 31 December 2018	3	14	17
Accumulated depreciation:			
Accumulated depreciation as at 1 January 2018	(3)	(14)	(17)
Charge for the year	–	–	–
Disposals	–	–	–
Other movements	–	1	1
Accumulated depreciation as at 31 December 2018	(3)	(13)	(16)
Net book value as at 1 January 2018	–	1	1
Net book value as at 31 December 2018	–	1	1
2017 (USD million)			
Cost			
Cost as at 1 January 2017	14	24	38
Additions	–	1	1
Disposals	–	(1)	(1)
Other movements	(11)	(9)	(20)
Cost as at 31 December 2017	3	15	18
Accumulated depreciation:			
Accumulated depreciation as at 1 January 2017	(12)	(19)	(31)
Charge for the year	–	(1)	(1)
Disposals	–	1	1
Other movements	9	5	14
Accumulated depreciation as at 31 December 2017	(3)	(14)	(17)
Net book value as at 1 January 2017	2	5	7
Net book value as at 31 December 2017	–	1	1

Leasehold improvements relate to improvements to land and buildings that have been occupied on commercial lease terms by the CSS(E)L Group and other CS group companies.

No interest has been capitalised in the current year within property and equipment (2017: USD Nil).

No impairment charges were recorded in 2018 and 2017 for property and equipment.

23 Intangible Assets

CSS(E)L Group and Company	Right to Use Leisure Facility	Internally Developed Software	Total
2018 (USD million)			
Cost			
Cost as at 1 January 2018	4	–	4
Additions	–	120	120
Disposals	–	(120)	(120)
Cost as at 31 December 2018	4	–	4
Accumulated amortisation:			
Accumulated amortisation as at 1 January 2018	(3)	–	(3)
Amortisation for the year	–	–	–
Impairment	–	–	–
Disposals	–	–	–
Accumulated amortisation as at 31 December 2018	(3)	–	(3)
Net book value as at 1 January 2018	1	–	1
Net book value as at 31 December 2018	1	–	1
Net book value as at 1 January 2017 (USD million)			
Cost			
Cost as at 1 January 2017	4	–	4
Additions	–	151	151
Disposals	–	(151)	(151)
Cost as at 31 December 2017	4	–	4
Accumulated amortisation:			
Accumulated amortisation as at 1 January 2017	(3)	–	(3)
Amortisation for the year	–	–	–
Impairment	–	–	–
Disposals	–	–	–
Accumulated amortisation as at 31 December 2017	(3)	–	(3)
Net book value as at 1 January 2017	1	–	1
Net book value as at 31 December 2017	1	–	1

No interest has been capitalised within intangible assets (2017: USD Nil).

The internally developed software investment during 2018 was transferred from CSS(E)L to CSi as all CSS(E)L assets get capitalised in CSi.

No impairment charges was recorded on right to use leisure facility. No impairment charges were recorded for internally developed software in 2018 and 2017. The right to use leisure facility is held in the Seoul Branch. This asset was impaired in 2015. The assets' fair value was calculated based on an average from external price quotes and is level 2 of the fair value hierarchy. The fair value of the asset is also equal to its recoverable amount.

24 Deposits

CSS(E)L Group and Company	2018	2017
Deposits from banks (USD million)		
Interest-bearing demand deposits	260	60
Non-interest bearing demand deposits	2	–
Time Deposits	–	2
Total deposits	262	62

25 Borrowings

CSS(E)L Group and Company	2018	2017
Borrowings (USD million)		
from banks	1,558	4,244
from customers	1,274	1,268
Total Borrowings	2,832	5,512

26 Provisions

CSS(E)L Group and Company	Property	Litigation	Total
Provisions (USD million)			
Balance at 1 January 2018	1	1	2
Charges during the year	–	15	15
Utilised during the year	–	(16)	(16)
Balance at 31 December 2018	1	–	1

CSS(E)L Group and Company	Property	Litigation	Total
Provisions (USD million)			
Balance at 1 January 2017	1	5	6
Charges during the year	–	73	73
Utilised during the year	–	(77)	(77)
Balance at 31 December 2017	1	1	2

Property provision

The property provision mainly relates to property (Hanwha Building, Seoul) reinstatement obligations that will be incurred when the leases expire.

Litigation provision

The CSS(E)L Group accrues litigation provisions (including fees and expenses of external lawyers and other service providers) in connection with certain judicial, regulatory and arbitration proceedings when reasonably possible losses, additional losses or ranges of loss are more likely than not and can be reasonably estimated. General Counsel in consultation with the business

reviews CS group's judicial, regulatory and arbitration proceedings each quarter to determine the adequacy of its litigation provisions and may increase or release provisions based on management's judgement and the advice of counsel. The anticipated utilisation of these litigation provisions typically ranges from six to eighteen month period, however certain litigation provisions are anticipated to extend beyond this period. Further provisions or releases of litigation provisions may be necessary in the future as developments in such litigation, claims or proceedings warrant. The litigation provision relates to legal cases that the Company is defending. The exact timing of outflow of economic benefits cannot be ascertained at 31 December 2018.

27 Debt in Issuance

CSS(E)L Group and Company	2018	2017
Debt in issuance (USD million)		
Senior debt	10,587	19,433
Subordinated debt	2,250	2,250
Total Debt in issuance	12,837	21,683

Senior Debt

Senior debt as at 31 December 2018 comprises:

CSS(E)L Group and Company	Counterparty Name	Date of facility	
Outstanding as at December 2018			
EUR 1,145 million	Credit Suisse AG (London Branch)	24 March 2014	400 days call loans evergreen
GBP 2,380 million	Credit Suisse AG (London Branch)	24 March 2014	400 days call loans evergreen
USD 5,000 million	Credit Suisse AG (London Branch)	24 March 2014	400 days call loans evergreen
JPY 137,000 million	Credit Suisse AG (London Branch)	22 February 2017	400 days call loans evergreen

Senior debt as at December 2017 comprises:

CSS(E)L Group and Company	Counterparty Name	Date of facility	
Outstanding as at December 2017			
EUR 5,940 million	Credit Suisse AG (London Branch)	24 March 2014	400 days call loans evergreen
GBP 5,500 million	Credit Suisse AG (London Branch)	24 March 2014	400 days call loans evergreen
USD 3,675 million	Credit Suisse AG (London Branch)	24 March 2014	400 days call loans evergreen
USD 625 million	Credit Suisse Investment Holdings (UK)	14 December 2017	729 days MREL instruments
USD 625 million	Credit Suisse Investment Holdings (UK)	14 December 2017	1460 days MREL instruments

During 2018, 400 days call evergreen loans of USD 1,325 million from Credit Suisse AG (London Branch) were issued. Further, the currency composition of evergreen loans funding changed due to currency specific requirements resulting in further repayment of Euro and GBP denominated and issuance of JPY denominated evergreen call loans with Credit Suisse AG (London Branch). Further, the entity has repaid internal Minimum Requirement for own funds and Eligible Liabilities ('MREL') of USD 1,250 million with counterparty Credit Suisse Investment Holdings (UK) on account of change in funding requirements.

Subordinated Debt

At 31 December 2018, subordinated debt comprises an amount of USD 2,250 million (2017: USD 2,250 million) as advanced by Credit Suisse Investment (UK).

On 15 April 2014 as part of restructuring of subordinated debt the Company borrowed USD 1,500 million from Credit Suisse Investment (UK). Interest on subordinated debt is payable at a rate of 3 months London Interbank Offered Rate ('LIBOR') plus 342 basis points per annum. Under the terms of the loan, the Company may repay, in whole or in part, any amounts outstanding upon giving prior written notice to the lender and PRA. The earliest date at which the Company may make a repayment is 15 April 2019. The maturity of the loan is 15 April 2026. In addition to this the Company borrowed additional USD 750 million under the subordinated loan facility dated 14th April 2014. The maturity of additional loan is 29 December 2025.

Pursuant to IAS 7 – Cash Flow Statement, below is the reconciliation of liabilities arising from financing activities.

CSS(E)L Group and Company	Balance as at 1 January 2018	Cash Flows		Non Cash Changes		Balance as at 31 December 2018
		Issuances	Repayments and other movements	Acquisition	Translation FX and Interest movements	
Debt in issuance (USD million)						
Debt in issuance	21,683	10,712	(19,164)	–	(394)	12,837
Total Debt in issuance	21,683	10,712	(19,164)	–	(394)	12,837

CSS(E)L Group and Company	Balance as at 1 January 2017	Cash Flows		Non Cash Changes		Balance as at 31 December 2017
		Issuances	Repayments and other movements	Acquisition	Translation FX and Interest movements	
Debt in issuance (USD million)						
Debt in issuance	24,762	10,282	(14,158)	–	797	21,683
Total Debt in issuance	24,762	10,282	(14,158)	–	797	21,683

28 Discontinued Operations and Assets Held for Sale

The CSS(E)L Group has committed to sell part of its Prime Services business to Credit Suisse AG (acting through its Dublin branch) since 2016. The transfer is on a phased basis and will record the sale as completed when the majority of client balances have migrated. Part of the business has been migrated in 2017 and 2018. The post-tax profit or loss of this business has been classified as discontinued operations in CSS(E)L Group's Consolidated Statement of Income. Assets and liabilities relating to the transfers that have not yet completed have been classified as Assets/Liabilities held for sale in the Consolidated Statement of Financial Position. During 2018, USD 5,787 million assets and USD 2,377 million liabilities have been transferred, the transfer will continue through 2019. Cash inflow relating to operational activities in 2018 were USD 7,780 million (2017: Cash outflow of USD 3,711 million).

CSS(E)L sold the majority of its assets and liabilities in Frankfurt Branch to Credit Suisse (Deutschland) AG in 2017 for USD 23 million which qualified for discontinued operations treatment under IFRS, and post-tax profit or loss of this branch has been classified as discontinued operations in CSS(E)L Group's Consolidated Statement of Income. USD 88 million of assets and USD 86

million of liabilities were transferred to Credit Suisse (Deutschland) AG. Net cash inflows relating to operational activities were USD 42 million. None of the net profit or loss in relation to this business is attributable to non-controlling interests.

The majority of the Systematic Market Making ('SMM') business was closed during 2016, with the remainder being completed in early 2017. The remaining assets and liabilities were closed out and these represent equity securities and listed derivative positions. In 2017, the CSS(E)L Group has closed out USD 995 million of assets and USD 1,006 million of liabilities. Cash outflow relating to operational activities for 2018 were USD Nil (2017: Cash inflow of USD 45 million). None of the net profit or loss in relation to this business is attributable to non-controlling interest.

No impairment losses were required to be recognised as a result of having to measure the Assets/Liabilities held for sale at fair value less cost to sell.

Details of the assets and liabilities in relation to the business are provided in the following table:

Prime Services**Statement of Financial Position for discontinued operations (USD million)**

Securities purchased under resale agreements and securities borrowing transactions	877	9,800
Trading financial assets at fair value through profit or loss	500	6,313
of which positive market values from derivative instruments	118	1,749
Other Assets	470	5,327
Total assets held for sale	1,847	21,440
Securities sold under repurchase agreements and securities lending transactions	148	3,886
Trading financial liabilities at fair value through profit or loss	122	6,640
of which negative market values from derivative instruments	122	1,330
Financial liabilities designated at fair value through profit or loss	–	109
Debt in issuance	13	–
Other Liabilities	3,773	5,249
Total liabilities held for sale	4,056	15,884

The results of operations of the businesses sold have been reflected in Profit/(Loss) after taxes from discontinued operations in the consolidated statements for the relevant periods presented. The assets and liabilities of discontinued operations for which the sale has not yet been completed are presented as assets held for sale and liabilities held for sale, respectively, and prior periods are not reclassified. There are no cumulative incomes or expenses included in OCI relating to the disposal group.

The presentation of assets and liabilities held for sale required the separation of certain assets and liabilities that were previously treated as a single unit of account into disaggregated asset and liability positions. It was USD Nil for 2018. However, in 2017 this resulted in an increase of USD 405 million in total assets and total liabilities in the Consolidated Statement of Financial Position (total assets increased from USD 123,377 million to USD 123,782 million and total liabilities increased from USD 115,655 million to USD 116,060 million).

2018**Statement of Income for discontinued operations (USD million)**

Interest income	407	–	–	407
Interest expense	(437)	–	–	(437)
Net interest expense	(30)	–	–	(30)
Net commission and fee income/(expense)	–	–	–	–
Net gains from financial assets/liabilities at FV through profit or loss	127	–	–	127
Other revenues/(expenses)	5	–	–	5
Net revenues	102	–	–	102
Compensation and benefits	(6)	–	–	(6)
Restructuring Expenses	–	–	–	–
General and administrative expenses	(81)	–	–	(81)
Total operating expense	(87)	–	–	(87)
Profit/(Loss) before tax	15	–	–	15
Income tax credit/(charge)	(5)	–	2	(3)
Net income attributed to discontinued operations	10	–	2	12

¹ Tax benefit relates to prior year true up.

2017**Statement of Income for discontinued operations (USD million)**

Interest income	283	2	–	285
Interest expense	(383)	(2)	–	(385)
Net interest expense	(100)	–	–	(100)
Commission and fee income	6	–	14	20
Commission and fee expense	(6)	–	–	(6)
Net commission and fee income/(expense)	–	–	14	14
Net gains/(losses) from financial assets/liabilities at FV through profit or loss	397	4	1	402
Other revenues/(expenses)	11	2	22	35
Net revenues	308	6	37	351
Compensation and benefits	(14)	(3)	(17)	(34)
Restructuring Expenses	–	–	(5)	(5)
General and administrative expenses	(197)	(12)	(7)	(216)
Total operating expense	(211)	(15)	(29)	(255)
Profit/(Loss) before tax	97	(9)	8	96
Income tax credit/(charge)	(35)	2	(14)	(47)
Net income attributed to discontinued operations	62	(7)	(6)	49

The above table does not present a gain or loss recognised on the measurement to fair value less costs to sell or on the disposal of the assets or disposal groups constituting the discontinued operation. This is because the disposal group does not contain assets or liabilities that are measured at the lower of the carrying

amount or fair value less cost to sell. The proceeds of the sales of the businesses are recorded as an adjustment to Capital Contribution, rather than in profit or loss due to the two parties being under common control.

29 Accumulated Other Comprehensive Income

CSS(E)L Group and Company	Cumulative Translation Adjustment	Unrealised gain/(loss) on Pension Fund	Unrealised gains/(losses) on financial assets available for sale	Gains/(losses) on cash flow hedges	Accumulated other comprehensive income
2018					
Accumulated other comprehensive income (USD million)					
Balance at 1 January 2018	(331)	287	35	–	(9)
Adjustment on initial application of IFRS 15 (net of tax)	–	–	–	–	–
Adjustment on initial application of IFRS 9 (net of tax)	–	–	(35)	–	(35)
Adjusted Balance at 1 January 2018	(331)	287	–	–	(44)
Increase/(decrease):					
Foreign exchange translation differences	(23)	–	–	–	(23)
Cash flow hedges – effective portion of changes in fair value	–	–	–	(1)	(1)
Net gain on hedges of net investments in foreign entities taken to equity	22	–	–	–	22
Re-measurement of defined benefit liability/(asset)	–	(20) ¹	–	–	(20)
Balance at 31 December 2018	(332)	267	–	(1)	(66)

¹ Disclosed net of tax

2017

Accumulated other comprehensive income (USD million)					
Balance at 1 January 2017	(350)	297	25	–	(28)
Increase/(decrease):					
Foreign exchange translation differences	76	–	–	–	76
Cash flow hedges – effective portion of changes in fair value	–	–	–	–	–
Net gain on hedges of net investments in foreign entities taken to equity	(57)	–	–	–	(57)
Net loss on financial assets available-for-sale	–	–	10	–	10
Re-measurement of defined benefit liability/(asset)	–	(10) ¹	–	–	(10)
Balance at 31 December 2017	(331)	287	35	–	(9)

¹ Disclosed net of tax

30 Share Capital and Share Premium

CSS(E)L Group and Company	2018	2017
Share Capital (USD million)		
Opening balance	3,859	3,859
38,593,205,060 ordinary voting shares of USD 0.10 each	3,859	3,859
Total called-up share capital	3,859	3,859
Share Premium (USD million)		
Share Premium	–	5,661
Total share premium	–	5,661

The ordinary shares have attached to them full voting, dividend and capital distribution (including on winding up) rights. In order to create additional distributive reserves, the Company reduced its share capital and capital contributions reserve by

cancelling all of its share premium account and transferring all the share premium and all of its capital contributions reserve to the retained earnings account.

31 Expected Credit Loss Measurement

The following tables show reconciliations from the opening to the closing balance of the loss allowance by class of financial

instrument as well as reconciliations of the gross carrying amounts.

CSS(E)L Group and Company	12 Month ECL Stage 1		Not credit impaired		Credit impaired		Total	Total
	Gross carrying amount	Allowance for ECL	Gross carrying amount	Allowance for ECL	Lifetime ECL Stage 2	Lifetime ECL (excluding purchased / originated credit impaired) Stage 3		
2018							Gross carrying amount	Allowance for ECL
Financial guarantees (USD million)								
Opening balance	206	-	-	-	-	-	206	-
Other changes	(6)	-	-	-	-	-	(6)	-
Foreign Exchange	(11)	-	-	-	-	-	(11)	-
Closing balance	189	-	-	-	-	-	189	-

2018	12 Month ECL Amount
Interest bearing deposits with banks (USD million)	
Opening balance	2
Net remeasurement of loss allowance	(2)
Foreign exchange	-
Closing balance	-

2018	12 Month ECL Amount
Other assets (USD million)	
Opening balance	2
Net remeasurement of loss allowance	(1)
Foreign exchange	-
Closing balance	1

Inputs into measurement of ECL

The key inputs into the measurement of ECLs (Stage 1 and Stage 2) are the term structures of the following variables:

- Probability of Default ('PD'); and
- Loss given default ('LGD'); and
- Exposure at default ('EAD').

These parameters derive from internally developed statistical models and historical data that leverage regulatory models. They are adjusted to reflect forward-looking information as described below to derive point-in-time, forward-looking term structures.

PD are estimates at a certain date, which are calculated based on statistical rating models and assessed using rating tools tailored to the various categories of counterparties and exposures. These statistical models are based on internally and externally compiled data comprising both quantitative and qualitative factors. If a counterparty or exposure migrates between rating classes,

then this leads to a change in the estimate of the associated PD. Lifelong PDs are estimated considering the contractual maturities of exposures and estimates prepayment rates.

LGD is the magnitude of the expected loss if there is a default. The CSS(E)L Group estimates LGD parameters based on the history of recovery rates of claims against defaulted counterparties. The LGD models consider the structure, collateral, seniority of the claim, geography, counterparty industry and recovery costs of any collateral that is integral to the financial asset.

EAD represents the expected exposure in the event of a default. The CSS(E)L Group derives the EAD from the current exposure to the counterparty and potential changes to the current amount allowed under the contract, including amortisation, and prepayments. The EAD of a financial asset is the gross carrying amount at default. For lending commitments and financial guarantees, the EAD considers the amount drawn, as well as potential future

amounts that may be drawn or repaid under the contract, which will be estimated based on historical observations. For some financial assets, the CSS(E)L Group determines EAD by modelling the range of possible exposure outcomes at various points in time using scenario and statistical techniques.

Where a relationship to macroeconomic indicators is statistically sound and in line with economic expectations, the parameters are modelled accordingly and, thus, incorporate the CSS(E)L Group's forward looking forecasts.

As described above, and subject to using a maximum of a 12-month PD for financial assets for which credit risk has not significantly increased, the CSS(E)L Group measures ECLs considering the risk of default over the maximum contractual period (including any borrower's extension options) over which it is exposed to credit risk, even if, for risk management purposes, the CSS(E)L Group considers a longer period. The maximum contractual period extends to the date at which the CSS(E)L Group has the right to require repayment of an advance or terminate a loan commitment or guarantee.

The Scenario Design team within the CSS(E)L Group's Enterprise and Operational Risk Management ('EORM') department generates the three relevant macro-economic scenarios for the different geographical segments. The EORM Scenario Design formulate the Baseline projections used for IFRS9 from in-house Credit Suisse Economic Research forecasts and where judged appropriate from external sources. The Downside and Upside scenarios are leveraged off the Baseline view. All three scenarios are subject to a syndication, review and challenge process. That syndication process is with the Credit Suisse Economic Research fraternity and with Credit Risk Managers. The EORM Scenario Design incorporate any feedback from that syndication into the scenario projections. The Scenario Design Working Group for IFRS9 is the governance forum which provides a final review and challenge and approves the macro-economic scenarios.

The following tables show the values of the key forward looking economic variables/assumptions used in each of the economic scenarios of the geographical segments for the ECL calculations. The figures for 'Subsequent years' represent a long-term average and so are the same for each scenario.

Macroeconomic Factors (MEF)	Function-Corporates/ Financial Institutions	ECL Scenario	Assigned Probabilities	Latest data	End Period Projections						Impact on ECL from an increase in MEF
					December 18 %	2018 %	2019 %	2020 %	2021 %	2022 %	
EMEA											
UK Nominal GDP Growth Rate (%YoY)											
	Financial Institutions	Downside	40	3.6	2.6	0.5	0.7	1.7	3.2	3.7	↓
	Financial Institutions	Baseline	50	3.6	3.4	3.3	3.5	2.9	3.4	3.7	
	Financial Institutions	Upside	10	3.6	3.5	3.8	4.0	3.2	3.4	3.7	
Eurozone Unemployment Rate (%)											
	Corporates	Downside	40	8.1	8.6	10.5	12.0	12.5	11.5	10.5	↑
	Corporates	Baseline	50	8.1	8.1	7.8	7.6	7.3	7.1	7.1	
	Corporates	Upside	10	8.1	8.0	7.5	7.2	7.2	7.1	7.1	
Eurozone House Price Index (%YoY)											
	Both	Downside	40	3.2	2.1	-1.3	-1.7	-0.2	2.1	3.0	↓
	Both	Baseline	50	3.2	3.1	2.4	1.8	2.6	2.9	3.0	
	Both	Upside	10	3.2	3.3	3.3	2.5	2.9	2.9	3.0	
UK 1Y Government Bond Yield (%)											
	Financial Institutions	Downside	40	0.8	0.6	0.8	1.4	1.5	1.7	1.8	↓
	Financial Institutions	Baseline	50	0.8	0.8	1.3	1.4	1.5	1.7	1.8	
	Financial Institutions	Upside	10	0.8	0.9	1.3	1.4	1.5	1.7	1.8	
Euribor 12Mo Rate (%)											
	Corporates	Downside	40	-0.2	-0.2	-0.2	0.6	1.0	1.2	1.5	↑
	Corporates	Baseline	50	-0.2	-0.1	0.1	0.6	1.0	1.2	1.5	
	Corporates	Upside	10	-0.2	0.0	0.1	0.6	1.0	1.2	1.5	
Euro 3Y Swap Rate (%)											
	Corporates	Downside	40	0.1	0.0	-0.1	0.7	1.0	1.2	1.3	↑
	Corporates	Baseline	50	0.1	0.1	0.2	0.7	1.0	1.2	1.3	
	Corporates	Upside	10	0.1	0.1	0.3	0.7	1.0	1.2	1.3	
EuroStoxx 50 Equity Index (levels)											
	Corporates	Downside	40	3399	3296	2991	3118	3227	3413	3620	↓
	Corporates	Baseline	50	3399	3370	3170	3186	3227	3413	3620	
	Corporates	Upside	10	3399	3426	3501	3308	3227	3414	3620	

Macroeconomic Factors (MEF)	Function-Corporates/ Financial Institutions	ECL Scenario	Assigned Probabilities	Latest data	End Period Projections						Impact on ECL from an increase in MEF
					December 18 %	2018 %	2019 %	2020 %	2021 %	2022 %	
North America											
US Unemployment Rate (%) ↑											
	Both	Downside	40	3.8	3.9	4.6	5.3	5.8	5.5	4.8	
	Both	Baseline	50	3.8	3.7	3.7	3.7	4.1	4.5	4.5	
	Both	Upside	10	3.8	3.7	3.6	3.5	4.1	4.5	4.5	
US House Price Index (%YoY) ↓											
	Corporates	Downside	40	5.5	2.2	-5.0	-3.6	-2.5	1.3	2.8	
	Corporates	Baseline	50	5.5	4.0	2.3	3.2	2.7	2.8	2.8	
	Corporates	Upside	10	5.5	4.1	2.9	3.8	3.0	2.8	2.8	
US 5Y Government Bond Yield (%) ↑											
	Corporates	Downside	40	3.0	2.5	2.0	3.1	3.1	3.1	3.1	
	Corporates	Baseline	50	3.0	3.1	3.2	3.1	3.1	3.1	3.1	
	Corporates	Upside	10	3.0	3.1	3.2	3.1	3.1	3.1	3.1	
US 10Y Government Bond Yield (%) ↑											
	Corporates	Downside	40	3.1	2.7	2.5	3.3	3.3	3.4	3.5	
	Corporates	Baseline	50	3.1	3.2	3.3	3.3	3.3	3.4	3.5	
	Corporates	Upside	10	3.1	3.3	3.4	3.3	3.3	3.4	3.5	
Dow Jones Equity Index (levels) ↓											
	Both	Downside	40	30190	29035	25661	28583	29742	31011	32417	
	Both	Baseline	50	30190	30437	28542	29160	29739	31008	32414	
	Both	Upside	10	30190	30491	31095	29636	29740	31009	32415	
US Market Volatility Index (VIX Qmax, levels) ↑											
	Financial Institutions	Downside	40	16.1	25.0	30.0	25.3	23.7	22.9	22.0	
	Financial Institutions	Baseline	50	16.1	17.9	25.0	24.3	23.7	22.9	22.0	
	Financial Institutions	Upside	10	16.1	17.5	23.0	23.9	23.7	22.9	22.0	
US Corporate BBB Yield (%) ↑											
	Corporates	Downside	40	4.3	4.3	4.5	4.9	4.9	4.9	5.0	
	Corporates	Baseline	50	4.3	4.6	5.0	4.9	4.9	4.9	5.0	
	Corporates	Upside	10	4.3	4.6	5.0	4.9	4.9	4.9	5.0	

Macroeconomic Factors (MEF)	Function-Corporates/ Financial Institutions	ECL Scenario	Assigned Probabilities	Latest data	End Period Projections						Impact on ECL from an increase in MEF
					December 18 %	2018 %	2019 %	2020 %	2021 %	2022 %	
APAC											
Japan Real GDP Growth Rate (%YoY)											
	Corporates	Downside	40	0.4	0.1	-2.4	-0.2	0.8	1.2	0.9	↓
	Corporates	Baseline	50	0.4	1.4	-0.4	2.1	1.7	1.3	0.9	
	Corporates	Upside	10	0.4	2.1	0.7	3.3	2.3	1.4	0.9	
Australia Real GDP Growth Rate (%YoY)											
	Financial Institutions	Downside	40	2.8	2.4	0.3	0.4	1.5	2.2	2.4	↓
	Financial Institutions	Baseline	50	2.8	3.5	2.3	2.5	2.4	2.4	2.4	
	Financial Institutions	Upside	10	2.8	3.7	2.6	2.8	2.5	2.4	2.4	
Australia House Price Index (%YoY)											
	Financial Institutions	Downside	40	-3.4	-8.4	-16.2	-0.3	4.9	4.2	4.9	↓
	Financial Institutions	Baseline	50	-3.4	-7.6	-13.4	3.7	8.7	5.3	4.9	
	Financial Institutions	Upside	10	-3.4	-5.6	-5.2	6.1	9.5	5.4	4.9	
ASX 200 Total Return Index (levels)											
	Financial Institutions	Downside	40	63979	62030	56302	66683	68914	69470	70076	↓
	Financial Institutions	Baseline	50	63979	64875	68587	68762	68911	69467	70073	
	Financial Institutions	Upside	10	63979	65511	70180	69007	68911	69467	70073	

For financial instruments originated prior to the effective date of IFRS 9, the origination PD does not include any further adjustments to reflect expectations of future macroeconomic conditions since these are not available without the use of hindsight. The

quantitative comparison is based on a number of grade notches deterioration to identify significant increase in credit risk as set out in the following table:

SICR thresholds (back book)

Origination Rating	SICR Trigger – # notch(es) of downgrade
AAA to A+	7
A	6
A-	5
BBB+	4
BBB to BB-	3
B+ to B-	2
CCC+ to CCC-	1
CC	-

In terms of the quantitative trigger for new originated financial instruments, the CSS(E)L Group compared:

- the remaining lifetime PD at the reporting date; with

- the remaining lifetime PD for this point in time that was estimated on initial recognition of the exposure.

If the difference between the two is a multiple according to the following table, there is a significant increase in credit risk.

SICR thresholds (forward book)

Global Corporates			
Origination Rating	Americas	APAC	EMEA
AAA	1,244	2,447	206
AA+ to AA-	163 to 24	1,191 to 589	18
A+ to A-	5 to 4	95	18
BBB+ to BBB-	3	95 to 34	7 to 3
BB+ to BB-	3	34 to 18	3
B+ to B-	3	7 to 2	3 to 2
CCC+ to CCC-	2 to 1	1	1
CC	Last rating before default	Last rating before default	Last rating before default

SICR thresholds (forward book)

Financial Institutions and Fallback			
Origination Rating	Americas	APAC	EMEA
AAA	743	339,092	49
AA+ to AA-	97 to 8	339,092 to 172,811	49
A+ to A-	8 to 7	50,576 to 480	49 to 8
BBB+ to BBB-	5 to 4	171 to 5	5 to 3
BB+ to BB-	4	4	3
B+ to B-	3	4 to 1	3 to 2
CCC+	2	1	1
CCC to CCC-	Last rating before default	1	1
CC	Last rating before default	Last rating before default	Last rating before default

32 Retirement Benefit Obligations

The Company has several pension schemes covering substantially all employees, including defined benefit pension plans and defined contribution pension plans, mainly located in the UK but also in other European and Asian locations. The most material pension arrangement is operated in the UK, where a funded, final salary defined benefit plan ('UK DB Plan') is operated. The assets of this plan are held independently of the Company's assets in separate trustee administered funds. Responsibility for governance and running of the UK DB Plan, including investment decisions (after consultation with the Company) and contribution schedules (which requires the agreement of the Company) lies with the board of trustees. The UK DB plan is closed to future defined benefit accrual however past service benefits for active members are still linked to pensionable salary. Smaller defined benefit plans are operated elsewhere, consisting of unfunded plans in Germany and France and a funded plan in Korea. A full actuarial valuation is completed by independent actuaries for these schemes once a year using the projected unit credit method and updated for each Consolidated Statement of Financial Position date.

Profile of the defined benefit plans

Approximately 3% of the UK DB Plan's obligations are attributable to current employees, 75% to former employees yet to retire and 22% to current pensioners and dependents of former

members currently in receipt of benefits. The liabilities of the other plans in aggregate are broadly split 15% to current employees, 80% to former employees yet to retire and 5% to current pensioners and dependents of former members.

The UK Plan duration is an indicator of the weighted-average time until benefits payments are made. For the UK DB Plan as a whole the duration is around 22 years reflecting the approximate split of the defined benefit obligation between current employees (duration of 25 years), deferred members (duration of 24 years) and current pensioners and dependents of former members currently in receipt of benefits (duration of 15 years).

The following disclosures contain the balances for the entire defined benefit plans, including the plan sponsored by the Company in the UK, of which the Company is one of many participants, who are all related parties under common control. The Company has no contractual agreement or stated policy for charging the net defined benefit cost to the participating entities, therefore as the legal sponsor, the Company accounts for the entire plan using defined benefit accounting.

All expenses arising from retirement benefit obligations are recorded in the Consolidated Statement of Income under 'Compensation and benefits'.

Defined benefit pension plans

CSS(E)L Group and Company	UK		International	
	2018	2017	2018	2017
Defined benefit pension and other post-retirement defined benefit plans (USD million)				
Operating Cost				
Current service costs on benefit obligation	1	5	1	2
Past service costs (including curtailments)	11	(10)	–	–
Administrative expense	2	2	–	–
Financing Cost				
Net Interest (credits)/costs	(25)	(26)	1	1
Defined benefit (credits)/costs	(11)	(29)	2	3

CSS(E)L Group and Company	UK		International	
	2018	2017	2018	2017
Remeasurements in OCI (USD million)				
Return on plan assets (in excess of)/below that recognised in net interest	158	(71)	–	–
Actuarial (gains)/losses due to changes in financial assumptions	(121)	50	(1)	(2)
Actuarial (gains)/losses due to changes in demographic assumptions	(19)	(16)	–	–
Actuarial (gains)/losses due to liability experience	7	58	(2)	–
Adjustments due to the limit in para 64	–	–	–	–
Total amount recognised in OCI	25	21	(3)	(2)
Total amount recognised in profit and loss and OCI	14	(9)	(1)	2

The following table shows the changes in the defined benefit obligation and the fair value of plan assets during 2018 and 2017, and the amounts included in the Consolidated Statement of

Financial Position for the Company's defined benefit pension and other post-retirement defined benefit plans as at 31 December 2018 and 2017 respectively:

CSS(E)L Group and Company	UK		International	
	2018	2017	2018	2017
Defined benefit pension and other post-retirement defined benefit plans (USD million)				
Defined benefit obligation – 1 January	1,972	1,869	71	73
Current service cost	1	5	1	2
Interest cost	45	50	1	1
Actuarial (gains)/losses on assumptions	(140)	34	(1)	(2)
arising out of changes in demographic assumptions	(19)	(16)	–	–
arising out of changes in financial assumptions	(121)	50	(1)	(2)
Actuarial (gains)/losses – experience	7	58	(2)	–
Benefit payments	(159)	(211)	(3)	(1)
Past service costs (including curtailments)	11	(10)	–	–
Special termination benefits	–	–	–	–
Effect of business combinations and disposals	–	–	(6)	(11)
Settlement payments	–	–	–	(1)
Exchange rate (gains)/losses	(102)	177	(3)	10
Defined benefit obligation – 31 December	1,635	1,972	58	71
Fair value of plan assets – 1 January	3,053	2,841	10	10
Interest on plan assets	70	76	–	–
Actuarial (losses)/gains on plan assets	(158)	71	–	–
Actual return on plan assets	(88)	147	–	–
Employer contributions	5	5	1	1
Administrative expense	(2)	(2)	–	–
Benefit payments	(159)	(211)	(3)	(1)
Settlement payments	–	–	–	(1)
Exchange rate (losses)/gains	(160)	273	(1)	1
Fair value of plan assets – 31 December	2,649	3,053	7	10
Total funded status – 31 December				
Plan assets	2,649	3,053	7	10
Defined benefit obligation related to funded plans	(1,635)	(1,972)	(8)	(11)
Funded status for funded plans	1,014	1,081	(1)	(1)
Defined benefit obligation related to non-funded plans	–	–	(50)	(61)
Funded status recognised – 31 December	1,014	1,081	(51)	(62)

During 2017 there was a curtailment in relation to active members in the UK switching to a new defined contribution pension plan. The DBO was reduced by USD 10 million as a result of members breaking the salary link on their benefits.

Benefit payments include USD 140 million (2017: USD 193 million) of transfers where deferred members have initiated on an individual basis to transfer their pension to another pension scheme.

In 2018, a High Court concluded that the Guaranteed Minimum Pension ('GMP') needed to be equalised between male and female members who have GMP. GMP is a portion of pension that was accrued by individuals who have contracted out of

the State Second Pension prior to 6 April 1997. The DBO was increased by USD 11 million as a result of equalising the GMP.

Funding requirements

UK legislation requires that pension schemes are funded prudently. The latest funding valuation of the UK DB Plan was carried out by a qualified actuary as at 31 December 2014 and showed a surplus of GBP 39.1 million, calculated based on the Technical Provisions. The next funding valuation will be measured as at 31 December 2017, and is expected to be finalised on 31 March 2019.

For additional Pension Fund security, the Company has pledged securities of GBP 177 million as at 31 December 2018. These

securities are included in the balances in Note 40 – Assets Pledged or Assigned. At 31 December 2018 and 2017 the

pension fund plan assets hold no material amounts of CSS(E)L Group debt and equity securities.

Movement in the Pension Asset/Liability recognised in the Consolidated Statement of Financial Position:

CSS(E)L Group and Company (USD million)	UK		International	
	2018	2017	2018	2017
At 1 January	1,081	972	(61)	(63)
Total amount recognised in profit and loss and OCI (charge)/credit	(14)	9	1	(2)
Other economic events	–	–	7	11
Contributions paid	5	5	1	1
(Losses)/Gains due to changes in exchange rates	(58)	95	1	(8)
At 31 December	1,014	1,081	(51)	(61)

The Company recognises the surplus in the UK DB Plan in accordance with the requirements of IFRIC 14. The trustees of the UK DB Plan do not have the unilateral right to commence wind-up of the scheme. Thus, the Company assumes that the scheme continues in existence until the last benefit payments are made to members, at which point any residual assets are returned to the employer in line with the rules of the scheme. The Company will review the IASB's amendments to IFRIC 14 and how it will affect its ability to receive a refund of surplus once finalised.

For the UK Plan a net loss of USD 25 million was recorded in OCI for the year ending 31 December 2018. This was mainly

due to losses on the asset portfolio which were partially offset by gains on the benefit obligation resulting from an increase in the discount rate. For the year ending 31 December 2017 a net loss of USD 21 million was recorded in OCI for the UK DB Plan mainly due to losses on the benefit obligation resulting from a reduction in the discount rate as well as experience losses which were partially offset by gains on the asset portfolio.

Assumptions

The assumptions used in the measurement of the benefit obligation and defined benefit cost for the main defined benefit pension plan as at 31 December were as follows:

CSS(E)L Group and Company (31 December in %)	UK		International	
	2018	2017	2018	2017
Benefit obligation				
Discount rate	2.84%	2.45%	2.10%	2.10%
Retail Price Inflation	3.07%	3.11%	0.00%	0.00%
Consumer Price Inflation	1.97%	2.01%	1.80%	1.80%
Pension increases ¹	2.95%	2.97%	1.50%	1.50%
Salary increases	3.22%	3.26%	3.70%	3.50%
Defined benefit costs				
Discount rate – Service costs	2.45%	2.65%	2.10%	1.80%
Discount rate – Interest costs	2.34%	2.51%	2.10%	1.80%
Salary increases	3.26%	3.30%	3.50%	3.50%

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

A full yield curve valuation was carried out to determine the DBO, the above assumptions are the equivalent flat-rate assumptions that would result in the same DBO being calculated.

For discounting expected future cash flows in the UK, Credit Suisse adopted the "spot rate approach" for the valuation as of December 31, 2016, whereby individual spot rates on the yield curve are applied to each year's cash flow in measuring the plan's benefit obligation as well as future service costs and interest costs. Under the previous methodology, a single weighted average discount rate derived from the yield curve was applied to each cash flow.

Mortality Assumptions

The life expectancy assumptions for 2018 have been updated from those used for 2017.

The assumptions for life expectancy for the 2018 UK benefit obligation pursuant to IAS 19 are based on the 'SAPS 2 light' base table with improvements in mortality in line with 2017 CMI model with S=7.5, and a scaling factor of 95%. Underpins to future mortality improvement have also been incorporated, the annual long term rate of improvement being 1.50% p.a.

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

	2018	2017
Life expectancy at age 60 for current pensioners aged 60 (years)		
Males	28.5	28.6
Females	29.6	29.7
Life expectancy at age 60 for future pensioners currently aged 40 (years)		
Males	30.3	30.4
Females	31.5	31.5

Sensitivity Analysis

Changes in the principal assumptions used to measure the benefit obligation and total periodic pension cost would have had the following effects:

2018	UK				International			
	DBO (USD million)	Increase %	DBO (USD million)	Decrease %	DBO (USD million)	Increase %	DBO (USD million)	Decrease %
Benefit obligation								
One-percentage point change								
-1% / +1% Discount rate	2,041	25%	1,332	(19%)	68	17%	50	(14%)
+1% / -1% Inflation rate	1,869	14%	1,437	(12%)	61	5%	55	(5%)
+1% / -1% Salary increases rate	1,639	0%	1,632	0%	59	2%	57	(1%)
+1 / -1 year to life expectancy at 60	1,677	3%	1,593	(3%)	59	2%	57	(2%)

2017	UK				International			
	DBO (USD million)	Increase %	DBO (USD million)	Decrease %	DBO (USD million)	Increase %	DBO (USD million)	Decrease %
Benefit obligation								
One-percentage point change								
-1% / +1% Discount rate	2,497	27%	1,572	(20%)	85	18%	61	(15%)
+1% / -1% Inflation rate	2,311	17%	1,698	(14%)	76	6%	67	(6%)
+1% / -1% Salary increases rate	1,975	0%	1,967	0%	73	2%	71	(1%)
+1 / -1 year to life expectancy at 60	2,034	3%	1,910	(3%)	73	2%	70	(2%)

The sensitivity analysis has been derived using a number of additional full valuation runs that have been carried out using the data used for calculating the 31 December 2018 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.

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 DB Plan, including investment decisions (after consultation with the Company) and contribution schedules (which requires the agreement of the Company) lies with the Board of Trustees. The trustees in administration of the UK DB Plan aim to minimise risk subject to adopting an investment strategy that has a reasonable expectation of achieving a certain level of return by investing in a range of asset classes of appropriate liquidity and security which will generate income and capital growth to meet, together with agreed contributions from the Company, the cost of benefits. Risk

tolerance is established through careful consideration of plan liabilities, plan funding status and financial market condition.

The Fund has a hedging target of around 100% of interest rate and inflation risk arising from the technical provisions measure of the liabilities. Guidelines have been put in place for the hedging portfolio to limit the risk between it and the basis on which the Technical Provisions measure of the liabilities is calculated.

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

Investment risk is monitored and measured on an ongoing basis with quarterly investment and funding reports together with periodic asset/liability analysis and reviews of the inflation and interest rate hedge.

Risks Associated with UK DB Plan

The UK DB Plan exposes the Company 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 DB Plan holds a proportion of growth assets 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 by the trustees to ensure it remains appropriate given the UK DB Plan's long term objectives.

Changes in bond yields

A decrease in corporate bond yields will increase the value placed on the UK DB Plan's liabilities for accounting purposes, although this will be partially offset by an increase in the value of the bond holdings. The plan hedges interest rate risk, so whilst it might be expected that the hedge increases in value if bond yields decrease, the plan is exposed due to the fact that the hedge does not mitigate decreases in credit spreads used to generate the discount rate for accounting purposes.

Inflation Risk

A significant proportion of the UK DB 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). An increase in inflation will also increase the deficit to the extent that the inflation hedges do not match the effect of inflation increases on the benefit obligations – the current hedging is designed to minimise this risk relative to the technical provisions basis.

Life expectancy

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

Estimated future benefit payments

	Defined Benefit Pension Plan	
	UK Plans	International Plans
Estimated future benefit payments (USD million)		
2019	18	2
2020	20	1
2021	24	1
2022	27	1
2023	31	1
For five years thereafter	218	10

The future estimated benefit payments assume alternative benefit options that a member can choose instead of a pension are not elected, i.e. deferred members do not elect to transfer their pension arrangement to another pension scheme before retirement and members do not elect to convert pension into lump sum at retirement.

Expected Contributions

Expected contributions to defined benefit plans for the year ending 31 December 2019 are USD 4.7 million for UK Plans and USD 0.3 million for International plans.

Plan Assets Allocations

(USD Million)	2018				2017			
	Quoted	Unquoted	Total	% of total fair value of scheme assets	Quoted	Unquoted	Total	% of total fair value of scheme assets
Cash and cash equivalents	–	182	182	6.9%	–	182	182	6.0%
Debt Securities	2,304	86	2,390	90.2%	2,457	234	2,691	88.2%
of which governments	1,594	–	1,594	60.2%	1,664	–	1,664	54.6%
of which corporates	710	86	796	30.0%	793	234	1,027	33.6%
Equity Securities	–	–	–	–	–	50	50	1.6%
Derivatives	–	19	19	0.7%	–	34	34	1.1%
Alternative investments	–	58	58	2.2%	–	96	96	3.1%
of which hedge funds	–	13	13	0.5%	–	28	28	0.9%
of which other	–	45	45	1.7%	–	68	68	2.2%
Total plan assets UK Plans	2,304	345	2,649	100.0%	2,457	596	3,053	100.0%
Debt Securities	7	–	7	100.0%	10	–	10	100.0%
Total plan assets International Plans	7	–	7	100.0%	10	–	10	100.0%

Cash and cash equivalents include shares of separately managed funds and repurchase agreements for which the asset value is generally determined based on inputs other than quoted prices.

The fixed income securities include government bonds which are generally based on quoted prices. Corporate debt securities include individual positions and separately managed funds. They are generally based on quoted prices that are observable directly or indirectly. Positions for which market prices are not available and/or for which a fair value is not readily determinable, are measured at fair value using their net asset value ('NAV').

Equities include shares of separately managed funds, which are not directly quoted on a public stock exchange and/or for which a fair value is not readily determinable, and are measured at fair value using their NAV.

Derivatives consist of a variety of products to manage market risks (e.g. interest, inflation). These include OTC and exchange

traded derivatives. The fair value of OTC derivatives is determined on the basis of inputs that include those characteristics of the derivative that have a bearing on the economics of the instrument. The fair value of exchange-traded derivatives is typically derived from observable exchange prices and/or observable inputs.

Alternative investments primarily consist of investments in hedge funds and real estate investments. Alternative investments that are not directly quoted on a public stock exchange and/or for which a fair value is not readily determinable, are measured using their NAV.

Defined Contribution Pension Plans

The Company also contributes to various defined contribution pensions primarily in the United Kingdom. The contributions in these plans during 2018 and 2017 were USD 20 million and USD 30 million respectively.

33 Employee Share-based Compensation and Other Compensation Benefits

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

Compensation expense for share-based and other awards that were granted as deferred compensation is 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 restricted covenants, which generally include 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 (income)/expense for cash-settled share-based compensation plans recognised during 2018 and 2017 was USD (9) million and USD 79 million respectively. The total stock award liability recorded as at 31 December 2018 was USD 50 million (2017: USD 129 million). The fair value used to calculate the stock award liability was the closing Credit Suisse Group share price as at 31 December 2018 CHF 10.80 (2017: CHF 17.40). The average weighted fair value of awards granted in 2018 was CHF 16.55 (2017: CHF 14.40). The intrinsic value of vested share based awards outstanding as at year end was USD 14 million (2017: USD 35 million).

The recognition of compensation expense for the deferred compensation awards granted in February 2019 began in 2019 and thus had no impact on the 2018 financial statements.

Performance Share Awards ('PSA')

Certain employees received a portion of their deferred variable compensation in the form of performance share awards. Performance share awards are similar to share awards, except that the full balance of outstanding performance share awards, including those awarded in prior years, are subject to performance-based malus provisions.

Performance share awards granted from 2016 and onwards are subject to a negative adjustment in the event of a divisional loss

by the division in which the employees worked as of December 31, 2018, or a negative CSG ROE, whichever results in a larger adjustment. For employees in Corporate Functions and the Strategic Resolution Unit, the negative adjustment only applies in the event of a negative CSG ROE and is not linked to the performance of the divisions. The basis for the ROE calculation may vary from year to year, depending on the Compensation Committee's determination for the year in which the performance shares are granted.

The number of performance share awards was determined by dividing the deferred component of variable compensation being granted as performance shares by the average price of a CSG share over the ten business days ended February 28, 2019. The fair value of each performance share award was CHF 11.75, the CSG share price on the grant date.

The majority of performance share awards granted include the right to receive dividend equivalents upon vesting.

There was no negative adjustment applied to performance share awards granted in 2018 or in previous years as the 2018 divisional adjusted results and adjusted ROE of CSG were both positive.

Movements in the number of PSA outstanding were as follows:

CSS(E)L Group and Company	2018	2017
Number of units (millions)		
As at 1 January	2.93	3.46
Granted	1.20	1.96
Shares transferred in/out	(0.62)	(0.58)
Delivered	(1.43)	(1.78)
Forfeited	(0.21)	(0.13)
As at 31 December	1.87	2.93

Phantom Share Awards

Share awards granted in February 2019 are similar to those granted in February 2018. Each share award granted entitles the holder of the award to receive one Credit Suisse Group ('CSG') share, subject to service conditions. Share awards vest over three years with one third of the share awards vesting on each of the three anniversaries of the grant date (ratable vesting), with the exception of awards granted to individuals classified as risk managers or senior managers under the UK PRA Remuneration Code or similar regulations in other jurisdictions. Share awards granted to risk managers vest over five years with one fifth of the award vesting on each of the five anniversaries of the grant date, while share awards granted to senior managers vest over five years commencing on the third anniversary of the grant date, with one fifth of the award vesting on each of the third to seventh anniversaries of the grant date. Share awards are expensed over the

service period of the awards. The value of the share awards is solely dependent on the CSG share price at the time of delivery.

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

The number of share awards granted to employees was generally determined by dividing the deferred component of variable compensation being granted as shares by the average price of CSG share over the ten business days ended February 28, 2019. The fair value of each share award was CHF 11.75, the CSG share price on the grant date.

The majority of share awards granted include the right to receive dividend equivalents upon vesting.

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

CSS(E)L Group and Company	2018	2017
Number of units (millions)		
As at 1 January	5.00	5.72
Granted	2.02	3.48
Shares transferred in/out	(1.35)	(0.19)
Delivered	(2.89)	(3.74)
Forfeited	(0.29)	(0.27)
As at 31 December	2.49	5.00

Contingent Capital Share Awards

In March 2016, the CSG executed a voluntary exchange offer, under which employees had the right to voluntarily convert all or a portion of their respective CCA into Contingent Capital share awards at a conversion price of CHF 14.57/USD 15.02 CCA holders elected to convert USD 16 million of their CCA into Contingent Capital share awards during the election period. This fair

value represented an approximate conversion rate of 9%. Each Contingent Capital share award had a grant-date fair value of CHF 14.45/USD 14.90 and contains the same contractual term, vesting period, performance criteria and other terms and conditions as the original CCA.

Movements in the number of Contingent Capital Shares outstanding were as follows:

CSS(E)L Group and Company	2018	2017
Number of units (millions)		
As at 1 January	0.43	0.87
Granted	–	0.02
Shares transferred in/out	–	(0.03)
Delivered	(0.24)	(0.42)
Forfeited	(0.01)	(0.01)
As at 31 December	0.18	0.43

Contingent Capital Awards

Contingent Capital Awards (CCA) were granted in February 2019, 2018, February 2017, January 2016, 2015 and 2014 to certain employees as part of the 2018, 2017, 2016, 2015, 2014 and 2013 deferred variable compensation and have rights and risks similar to those of certain contingent capital instruments issued by CSG in the market. CCA are scheduled to vest on the third anniversary of the grant date other than those granted certain employees, where CCA vest on the fifth and seventh anniversaries of the grant date, respectively, and will be expensed over the vesting period. CCA provide a conditional right to receive semi-annual cash payments of interest equivalents until settled, with rates being dependent upon the vesting period and currency of denomination:

- CCA granted in 2019, 2018, 2017, 2016, 2015 and 2014 that are denominated in US dollars receive interest equivalents, at a rate of 4.46%, 3.05%, 4.27%, 5.41%, 5.75% and 5.33%, respectively, per annum over the six-month US dollar LIBOR and vest three years from the date of grant;

- CCA granted in 2018, 2017, 2016, 2015 and 2014 that are denominated in Swiss francs receive interest equivalents of 2.24%, 3.17%, 4.23%, 4.85% and 4.75%, respectively, per annum over the six-month Swiss franc LIBOR and vest three years from the date of grant;
- CCA granted in 2017 that are denominated in US dollars receive interest equivalents at a rate of 4.27% per annum over the six-month US dollar LIBOR and vest five or seven years from the date of grant.

The rates were set in line with market conditions at the time of grant and existing high-trigger and low-trigger contingent capital instruments that CSG has issued.

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

CCA have loss-absorbing features such that prior to settlement, the principal amount of the CCA would be written down to zero and forfeited 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 for Feb18, Feb17, Jan16, Jan15 and Jan14 CCA during the year ended December 31, 2018 was USD 4 million (2017: USD 18 million).

Capital Opportunity Facility Awards

As part of the 2011 annual compensation process, CSG awarded a portion of deferred variable compensation for certain employees in the form of 2011 Partner Asset Facility ('PAF2') units. PAF2 units are essentially fixed income structured notes that are exposed to a portion of the credit risk that arises in CSG's derivative activities, including both current and possible future swaps and other derivative transactions.

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:

- **Capital Opportunity Facility ('COF')**: participants elected for their award to be referenced to a COF. The COF is a seven-year facility that is linked to the performance of a portfolio of risk-transfer and capital mitigation transactions, to be entered into with CSG, chosen by a COF management team. The value of the COF awards will be reduced if there are losses from the COF portfolio, up to the full amount of the award. Participants who elect the COF will receive semi-annual US dollar cash distributions of 6.5% per annum until settlement in cash in 2021, and such semi-annual distributions will reduce the cash settlement amount payable in 2021; and
- **Contingent Capital Awards ('CCA')**: participants elected to receive CCA, with similar terms to the instruments granted as part of the 2013 compensation awards.

Total compensation expense recognised for the COF during the year ended December 31, 2018 was USD 1 million (2017: USD 2 million).

2008 Partner Asset Facility

As part of the 2008 annual compensation process, CSG granted certain employees the majority of the deferred compensation in the form of 2008 Partner Asset Facility ('PAF') awards, denominated in US dollars. The PAF awards were indexed to, and represented a first-loss interest in, a specified pool of illiquid assets (Asset Pool) that originated in the former Investment Banking division.

In the final year of the contractual term, the PAF holders received a final settlement in cash equal to the notional value, less all previous cash payments made to the PAF holder, plus any related gains or less any related losses on the liquidation of the Asset Pool. During 2017, the final settlement of the outstanding PAF awards was made.

Total compensation expense recognised during the year ended December 31, 2018 was USD Nil (2017: USD (0.2) million).

Other cash awards

During 2017, CSG granted deferred cash retention awards relating to the reorganisation of the APAC business. These awards will be expensed over a two-year period from the grant date.

In 2016, CSG granted deferred cash retention awards relating to the reorganisation of the Global Markets and Investment Banking & Capital Markets businesses. These awards will be expensed over a period of up to seven years from the grant date. Amortisation of these awards was recognised in the Corporate Center.

Total compensation expense recognised for APAC retention during the year ended December 31, 2018 was USD 0.3 million (2017: USD 1 million).

Total compensation expense recognised for GM and IBCM retention award during the year ended December 31, 2018 was Nil (2017: USD 1 million).

34 Related Parties

The Company is controlled by CSG, its ultimate parent, which is incorporated in Switzerland. The Company's parent company, Credit Suisse Investment Holdings (UK), which holds all of the voting rights in the undertaking, is incorporated in the UK. The registered address of CSG is Paradeplatz 8, 8070 Zurich, Switzerland and that of Credit Suisse Investment Holdings (UK) is One Cabot Square, London E14 4QJ.

The Company acts primarily in the investment banking sector as a financial intermediary for fellow CS group companies in providing investment banking and securities products and services for the Americas, European and Asian regions. The Company acts as one of the main booking entities in the European region for transacting in securities and derivatives. The Company generally enters into these transactions in the ordinary course of business and these transactions are on market terms that could be

obtained from unrelated parties. The Company has extensive transfer pricing policies (revenue sharing and cost plus agreements) to govern its intercompany relationships.

The Company holds service contracts in the UK. The costs associated with these are allocated to fellow CS group companies (see 'Expenses receivable from other CS group companies' in Note 11 – General, Administrative and Trading Expenses) based on detailed cost allocation statistics. The Company generally enters into these transactions in the ordinary course of business and these transactions are on market terms that could be obtained from unrelated parties.

Transactions with CS Investment Holdings (UK) have been reported as 'Parent' and with other CS group companies are under 'Fellow group companies'.

a) Related party assets and liabilities

CSS(E)L Group	31 December 2018			31 December 2017		
	Parent	Fellow group companies	Total	Parent	Fellow group companies	Total
Assets (USD million)						
Cash and due from banks	–	708	708	–	898	898
Interest bearing deposits with banks	–	7,421	7,421	–	20,272	20,272
Securities purchased under resale agreements and securities borrowing transactions	–	14,333	14,333	–	21,238	21,238
Trading financial assets mandatorily at fair value through profit or loss	–	2,916	2,916	–	2,420	2,420
Non-trading financial assets mandatorily at fair value through profit or loss	–	13,959	13,959	na	na	na ¹
Financial assets designated at fair value through profit or loss	–	–	–	–	6,091	6,091
Other assets	3	3,271	3,274	2	2,292	2,294
Assets Held for sale	–	103	103	–	8,602	8,602
Total assets	3	42,711	42,714	2	61,813	61,815
Liabilities and Equity (USD million)						
Deposits	–	56	56	–	15	15
Securities sold under repurchase agreements and securities lending transactions	–	5,809	5,809	–	13,822	13,822
Trading financial liabilities designated at fair value through profit or loss	–	3,205	3,205	–	2,500	2,500
Financial liabilities designated at fair value through profit or loss	–	23,483	23,483	–	19,246	19,246
Borrowings	–	2,832	2,832	–	5,512	5,512
Other liabilities	100 ²	7,971	8,071	100	9,592	9,692
Debt in issuance	–	12,837	12,837	1,250	20,433	21,683
Liabilities Held for sale	–	67	67	–	4,286	4,286
Share capital	3,859	–	3,859	3,859	–	3,859
Share premium	–	–	–	5,661	–	5,661
Capital contribution	–	–	–	5,685	–	5,685
Total liabilities and equity	3,959	56,260	60,219	16,555	75,406	91,961

¹ na – not applicable. These financial statements captions or disclosures apply under IFRS 9 adopted in the current year, and were not applicable under IAS 39 "Financial Instruments".

² Above table includes other liabilities balances with CSG of USD 100 million (2017: USD 98 million)

CSS(E)L Company	31 December 2018				31 December 2017			
	Parent	Fellow group companies	Subsidiaries and SPEs	Total	Parent	Fellow group companies	Subsidiaries and SPEs	Total
Assets (USD million)								
Cash and due from banks	–	708	–	708	–	898	–	898
Interest bearing deposits with banks	–	7,421	–	7,421	–	20,272	–	20,272
Securities purchased under resale agreements and securities borrowing transactions	–	14,333	–	14,333	–	21,238	–	21,238
Trading financial assets mandatorily at fair value through profit or loss	–	2,915	8	2,923	–	2,420	11	2,431
Non-trading financial assets mandatorily at fair value through profit or loss	–	13,959	–	13,959	na	na	na	na ¹
Financial assets designated at fair value through profit or loss	–	–	–	–	–	6,091	–	6,091
Other assets	3	3,271	2	3,276	2	2,293	–	2,295
Assets Held for sale	–	103	–	103	–	8,602	–	8,602
Total assets	3	42,710	10	42,723	2	61,814	11	61,827
Liabilities and Equity (USD million)								
Deposits	–	56	–	56	–	15	–	15
Securities sold under repurchase agreements and securities lending transactions	–	5,809	–	5,809	–	13,822	–	13,822
Trading financial liabilities designated at fair value through profit or loss	–	3,181	11	3,192	–	2,464	7	2,471
Financial liabilities designated at fair value through profit or loss	–	23,476	–	23,476	–	19,238	–	19,238
Borrowings	–	2,832	–	2,832	–	5,512	–	5,512
Other liabilities	100 ²	7,966	–	8,066	100	9,592	–	9,692
Debt in issuance	–	12,837	–	12,837	1,250	20,433	–	21,683
Liabilities Held for sale	–	67	–	67	–	4,286	–	4,286
Share capital	3,859	–	–	3,859	3,859	–	–	3,859
Share premium	–	–	–	–	5,661	–	–	5,661
Capital contribution	–	–	–	–	5,685	–	–	5,685
Total liabilities and equity	3,959	56,224	11	60,194	16,555	75,362	7	91,924

¹ na – not applicable. These financial statements captions or disclosures apply under IFRS 9 adopted in the current year, and were not applicable under IAS 39 "Financial Instruments".

² Above table includes other liabilities balances with CSG of USD 100 million (2017: USD 98 million)

Related party off-balance sheet transactions

CSS(E)L Group and Company (USD million)	31 December 2018			31 December 2017		
	Parent	Fellow group companies	Total	Parent	Fellow group companies	Total
Credit guarantees	–	189	189	–	206	206
Commitments to purchase cash securities <1 year	–	2,890	2,890	–	3,444	3,444
Total	–	3,079	3,079	–	3,650	3,650

b) Related party revenues and expenses

CSS(E)L Group (USD million)	31 December 2018 ¹			31 December 2017		
	Parent	Fellow group companies	Total	Parent	Fellow group companies	Total
Interest income	–	1,018	1,018	–	632	632
Interest expense	–	(1,020)	(1,020)	(2)	(961)	(963)
Net interest expense	–	(2)	(2)	(2)	(329)	(331)
Commissions and fee income/(expense)	–	(60)	(60)	–	(134)	(134)
Transfer pricing arrangements	–	136	136	–	(55)	(55)
Other Revenue	–	3	3	–	6	6
Total non-interest revenues	–	79	79	–	(183)	(183)
Net revenue/(expense)	–	77	77	(2)	(512)	(514)
Total operating expenses		(711)	(711)	(2)	(180)	(182)

¹ Above table shows revenues and expenses of continued and discontinued operations.

c) Remuneration

Disclosure required by the Companies Act 2006

Remuneration of Directors

(USD '000)	2018	2017
Emoluments	3,930	2,550
Long term incentive schemes:		
Amounts Paid under Deferred Cash Awards	795	1,116
Amounts Delivered under Share Based Awards	1,650	1,196
Total	6,375	4,862
Compensation for loss of office	–	2
Bank's contributions to defined contribution plan	58	49
Total	6,433	4,913

Emoluments include amounts paid to or receivable by the Directors. Only vested Cash Retention Awards are included in emoluments. Long term incentive schemes consist of deferred cash awards and share based awards and are only given to Executive Directors. The Non-Executive Directors only receive a fixed fee. Deferred cash awards are included in the period when the amounts vest and are paid, and share based awards are included in the period when the amounts vest and are delivered.

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

The aggregate of emoluments and deferred cash awards paid to or receivable by the highest paid director was USD 2,287,000 (2017: USD 1,786,000). The director was also a member of a defined contribution pension plan and the contribution paid during the year into the plan was USD 8,000 (2017: USD 1,000). There were no contributions made for defined benefit lump sum (2017: USD Nil). 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 Company's accounts for directors in accordance with IFRS requirements for 2018 was USD 8,700,000 (2017: USD 10,306,000).

	2018	2017
Number of Directors and Benefits		
Retirement benefits are accruing to the following number of Directors under:		
Defined contribution schemes	7	9
No Scheme	4	4
Both defined contribution and defined benefit	–	–
Both defined contribution and defined benefit lump sum	–	–
Directors in respect of whom services were received or receivable under long term incentive schemes	7	8

Remuneration of Key Management Personnel

	2018	2017
Remuneration of Key Management Personnel (USD' 000)		
Emoluments	6,369	5,821
Long term incentive schemes	2,209	4,608
Total	8,578	10,429
Compensation for loss of office	–	12
Bank's contributions to defined contribution plan	128	116
Bank's contributions to defined benefits sum plan	–	–
Total	8,706	10,557

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

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

Key management personnel are those persons having authority and responsibility for planning, directing and controlling the activities of the CSS(E)L Group, directly or indirectly, including any director of the CSS(E)L Group.

Key management personnel include Directors and the members of the CSS(E)L Executive Committee.

CSG Shares awarded to Key Management Personnel

	2018	2017
Number of shares	319,935	317,660

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.

d) Loans and Advances to Directors and Key Management Personnel

Loans outstanding to or due from Directors or Key management personnel of the CSS(E)L Group at 31 December 2018 were USD 4,000 (2017: USD 4,000), of which loans to Directors were USD 2,000 (2017: USD 2,000).

35 Employees

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

CSS(E)L Group and Company (Number)	2018	2017
Business Functions	607	1,008
Corporate Functions	790	1,504
Total	1,397	2,512

The CSS(E)L Group receives a range of services from related CS group companies. The headcount related to these services received is not included in the numbers. Additionally CSS(E)L used to be the main CS employing company in the UK and

provided a number of services to other related CS group companies, but the majority of staff have now been transferred to Credit Suisse International as part of the UK strategy.

36 Derivatives and Hedging Activities

Derivatives are generally either bilateral OTC contracts or standard contracts transacted through regulated exchanges. The CSS(E)L Group's most frequently used freestanding derivative products, entered into for trading and risk management purposes, include interest rate, equity, cross currency and credit default swaps, interest rate and foreign currency options, foreign exchange forward contracts, and foreign currency and interest rate futures.

Furthermore, the CSS(E)L Group enters into contracts that are not considered derivatives in their entirety but include embedded derivatives features. Such transactions primarily include issued and purchased structured debt instruments where the return may be calculated by reference to an equity security, index, or third-party credit risk or that have non-standard or foreign currency terms.

On the date the derivative contract is entered into, the CSS(E)L Group designates the derivative as belonging to one of the following categories:

- trading activities; or
- a risk management transaction that does not qualify as a hedge under accounting standards (referred to as an economic hedge); or
- a hedge of the variability of cash flows to be received or paid related to a recognised asset or liability or a forecasted transaction; or
- a hedge of a net investment in a foreign operation.

The following table sets forth details of trading and hedging derivatives instruments:

CSS(E)L Group	31 December 2018 ¹				31 December 2017 ¹			
	Trading		Hedging		Trading		Hedging	
	Positive replacement value	Negative replacement value	Positive replacement value	Negative replacement value	Positive replacement value	Negative replacement value	Positive replacement value	Negative replacement value
Trading and hedging derivatives instruments (USD million)								
Forwards and forward rate agreements	12	6	–	–	12	1	–	–
Swaps	863	918	–	–	1,057	1,164	–	–
Options bought and sold (OTC)	–	5	–	–	2	6	–	–
Interest rate products	875	929	–	–	1,071	1,171	–	–
Forwards and forward rate agreements	73	52	5	3	260	268	–	–
Swaps	405	343	–	–	148	100	–	–
Options bought and sold (OTC)	2	2	–	–	2	2	–	–
Foreign exchange products	480	397	5	3	410	370	–	–
Forwards and forward rate agreements	10	4	–	–	3	–	–	–
Swaps	3,036	3,661	–	–	3,156	3,206	–	–
Options bought and sold (OTC)	1	1	–	–	3	4	–	–
Options bought and sold (traded)	–	–	–	–	47	34	–	–
Equity/indexed-related products	3,047	3,666	–	–	3,209	3,244	–	–
Credit Swaps	5	3	–	–	8	53	–	–
Life finance related mortality swaps and others	1,018	716	–	–	1,007	677	–	–
Other products	1,018	716	–	–	1,007	677	–	–
Total derivative instruments	5,425	5,711	5	3	5,705	5,515	–	–

¹ Above table includes both continued and discontinued operations. Assets and liabilities pertaining to discontinued operations in 2018 are USD 118 million (2017: USD 1,749 million) and USD 122 million (2017 : USD: 1,330 million) respectively. Refer to Note 28- Discontinued Operations and Assets Held for Sale. Replacement value indicates Fair value.

CSS(E)L Group	2018 ¹		2017 ¹	
	Positive replacement value	Negative replacement value	Positive replacement value	Negative replacement value
Replacement values (USD million)				
Replacement values (trading and hedging) before netting	5,430	5,714	5,705	5,515
Replacement values (trading and hedging) after netting	5,430	5,714	5,705	5,515

¹ Replacement value indicates Fair value.

Company	31 December 2018 ¹				31 December 2017 ¹			
	Trading		Hedging		Trading		Hedging	
	Positive replacement value	Negative replacement value	Positive replacement value	Negative replacement value	Positive replacement value	Negative replacement value	Positive replacement value	Negative replacement value
Trading and hedging derivatives instruments (USD million)								
Forwards and forward rate agreements	12	6	–	–	12	1	–	–
Swaps	863	918	–	–	1,057	1,164	–	–
Options bought and sold (OTC)	–	5	–	–	2	6	–	–
Interest rate products	875	929	–	–	1,071	1,171	–	–
Forwards and forward rate agreements	73	52	5	3	260	269	–	–
Swaps	405	343	–	–	148	99	–	–
Options bought and sold (OTC)	2	2	–	–	2	2	–	–
Foreign exchange products	480	397	5	3	410	370	–	–
Forwards and forward rate agreements	10	4	–	–	3	–	–	–
Swaps	3,055	3,680	–	–	3,156	3,206	–	–
Options bought and sold (OTC)	1	1	–	–	3	4	–	–
Options bought and sold (traded)	–	–	–	–	47	34	–	–
Equity/indexed-related products	3,066	3,685	–	–	3,209	3,244	–	–
Credit Swaps	5	3	–	–	8	53	–	–
Life finance related mortality swaps and others	1,005	684	–	–	1,018	648	–	–
Other products	1,005	684	–	–	1,018	648	–	–
Total derivative instruments	5,431	5,698	5	3	5,716	5,486	–	–

¹ Above table includes both continued and discontinued operations. Assets and liabilities pertaining to discontinued operations in 2018 are USD 118 million (2017: USD 1,749 million) and USD 122 million (2017 : USD: 1,330 million) respectively. Refer to Note 28- Discontinued Operations and Assets Held for Sale. Replacement value indicates Fair value.

Company	2018 ¹		2017 ¹	
	Positive replacement value	Negative replacement value	Positive replacement value	Negative replacement value
Replacement values (USD million)				
Replacement values (trading and hedging) before netting	5,436	5,701	5,716	5,468
Replacement values (trading and hedging) after netting	5,436	5,701	5,716	5,468

¹ Replacement value indicates Fair value.

Trading Activities

The CSS(E)L Group is active in most of the principal trading markets and transacts in many popular trading and hedging products. As noted above, this includes the use of swaps, futures, options and structured products (custom transactions using combinations of derivatives) in connection with its sales and trading activities. Trading activities include market-making and customer based trading. The majority of the CSS(E)L Group's derivatives held as at 31 December 2018 were used for trading activities.

Economic Hedges

Economic hedges arise when the CSS(E)L Group enters into derivative contracts for its own risk management purposes, but the contracts entered into do not qualify for hedge accounting under IFRS. These economic hedges include the following types:

- interest rate derivatives to manage net interest rate risk on certain banking business assets and liabilities; and

- foreign exchange derivatives to manage foreign exchange risk on certain banking business revenue and expense items, as well as on banking business assets and liabilities.

Cash Flow Hedges

The CSS(E)L Group designates cash flow hedges as part of its strategy to mitigate its risk to variability of foreign currency denominated professional services and salaries and payroll taxes by using foreign exchange forwards. The strategy is to enter into a strip of foreign exchange forward trades to hedge the foreign exchange risk associated with these expenses to recognise the gain or loss on these hedges in the profit and loss line of the hedged item. The strip of foreign exchange forward trades mature on the last business day of the respective month. The objective of the strategy is to lock in the USD equivalent of certain GBP professional services and salaries and payroll taxes at the rates prevailing at the time of executing the hedge trades. By investing in foreign exchange forward contracts, the CSS(E)L Group has secured the GBP/USD exchange rate, at which rate

the expenses will be recorded at in the financial statements. The nature of the risk being hedged is the impact of forward foreign exchange rate movements on the moment of GBP expense recognition in the financial statements. Hence, the forward points within the foreign exchange forward trades are included in the hedge relationship. The GBP expenses are remeasured into USD at the time when recognised in the financial statements. The GBP denominated payments are referred to as the hedged item. The remeasurement of GBP expenses into USD is performed using the foreign exchange rate set on the last business day of that month. Hence, there is no timing mismatch between the hedging instrument and the hedged item, as the maturity date of

a foreign exchange forward trade is always a last business day of a month.

Net Investment Hedges

The CSS(E)L Group typically uses forward foreign exchange contracts to hedge selected net investments in foreign operations. The objective of these hedging transactions is to protect against adverse movements in foreign exchange rates.

The following table sets forth details of cash flow and net investment hedging instruments:

CSS(E)L Group and Company As at 31 December 2018 (USD million)	Nominal amount of the hedging instrument	Carrying amount of the hedging instrument		Line item in the statement of financial position where the hedging instrument is recorded	Changes in fair value used for calculating hedge ineffectiveness during the period
		Assets	Liabilities		
Foreign exchange price risk					
Cash Flow Hedges					
Forward contracts	64	–	1	Other liabilities	1
Net Investment hedges					
Forward contracts	498	5	2	Other liabilities/ Other Assets	–

The following table sets forth the timing of future cash flows of hedging instruments:

As at 31 December 2018 (USD million)	< 6 months	< 1 year
Foreign exchange price risk		
Cash Flow Hedges		
Forward contracts	33	31
Average exchange rate – (GBP/USD)	1.31	1.31
Net Investment Hedges		
Forward contracts	498	–
Average exchange rate (USD/KWR)	1,105.86	

The following table sets forth the details of hedged items:

As at 31 December 2018 (USD million)	Change in value of the hedged item	Cash flow hedge reserve
Foreign exchange price risk		
Cash Flow Hedges		
Forward contracts	–	(1)
Net Investment hedges		
Forward contracts	(23)	(259)

Hedge effectiveness assessment

The CSS(E)L Group assesses the effectiveness of hedging relationships both prospectively and retrospectively. The prospective assessment is made both at the inception of a hedging relationship and on an ongoing basis and requires the CSS(E)L Group to justify its expectation that the relationship will be highly effective

over future periods. The retrospective assessment is also performed on an ongoing basis and requires the CSS(E)L Group to determine whether or not the hedging relationship has actually been effective. If the CSS(E)L Group concludes, through a retrospective evaluation, that hedge accounting is appropriate for the current period, then it measures the amount of hedge ineffectiveness to be recognised in earnings.

Foreign exchange price risk	Cash flow hedges	Net Investment hedges
Forward contract (USD millions)		
Hedging gain/(loss) recognised in OCI	(1)	22

Cash flow hedge reserve (USD million)	Cash flow hedging reserve
Opening balance at 1 January 2018	-
Cash flow hedges	
Effective portion of changes in fair value:	
Foreign Exchange Currency risk	(1)
Closing balance at 31 December 2018	(1)

Disclosures relating to contingent credit risk

Certain of the Company's derivative instruments contain provisions that require it to maintain a specified credit rating from each of the major credit rating agencies. If the ratings fall below the level specified in the contract, the counterparties to the agreements could request payment of additional collateral on those derivative instruments that are in a net liability position. Certain of the derivative contracts also provide for termination of the contract, generally upon a downgrade of either Credit Suisse AG or the counterparty, at the existing mark to market replacement value of the derivative contract.

On a daily basis, the level of incremental collateral that would be required by derivative counterparties in the event of a Credit Suisse AG ratings downgrade is monitored. Collateral triggers are maintained by the Collateral Management department and vary by counterparty.

The impact of downgrades in the Credit Suisse AG's long-term debt ratings are considered in the stress assumptions used to determine the liquidity and funding profile of the Company. The Company holds a liquidity pool made up of 'high quality liquid assets' ('HQLA') to meet any additional collateral calls as a result of a downgrade. The assessment takes into consideration a two-notch downgrade in credit rating of Credit Suisse AG.

37 Guarantees and Commitments

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

CSS(E)L Group and Company	Maturity				Total gross amount	Collateral received	Net of collateral
	<1 year	1-3 years	3-5 years	>5 years			
31 December 2018							
Guarantees (USD million)							
Credit guarantees and similar instruments	–	–	–	189	189	–	189
Total guarantees	–	–	–	189	189	–	189

CSS(E)L Group and Company	Maturity				Total gross amount	Collateral received	Net of collateral
	<1 year	1-3 years	3-5 years	>5 years			
31 December 2018							
Other commitments (USD million)							
Forward reverse repurchase agreements with maturity <1 year	31	–	–	–	31	31	–
Commitments to purchase cash securities <1 year	7,832	–	–	–	7,832	–	7,832
Total other commitments	7,863	–	–	–	7,863	31	7,832

CSS(E)L Group and Company	Maturity				Total gross amount	Collateral received	Net of collateral
	<1 year	1-3 years	3-5 years	>5 years			
31 December 2017							
Guarantees (USD million)							
Credit guarantees and similar instruments	–	–	–	206	206	–	206
Total guarantees	–	–	–	206	206	–	206

CSS(E)L Group and Company	Maturity				Total gross amount	Collateral received	Net of collateral
	<1 year	1-3 years	3-5 years	>5 years			
31 December 2017							
Other commitments (USD million)							
Forward reverse repurchase agreements with maturity <1 year	12	–	–	–	12	12	–
Commitments to purchase cash securities <1 year	7,828	–	–	–	7,828	–	7,828
Total other commitments	7,840	–	–	–	7,840	12	7,828

Forward reverse repo agreements represent transactions in which the initial cash exchange of the reverse repurchase transactions takes place on specified future dates.

Credit guarantees are contracts that require the CSS(E)L Group 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

CSS(E)L Group 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.

Commitments to purchase cash securities represents the value of debt and equity cash security contracts which requires CSS(E)L

Group to make payments to customers, banks, brokers and dealers which have not settled as at the reporting date.

Lease Commitments

The following table sets forth details of future minimum operating lease commitments under non-cancellable operating leases:

	2018	2017
Operating lease commitments (USD million)		
Up to 1 year	–	18
From 1 year and no later than 5 years	–	75
From 5 years and over	–	248
Future operating lease commitments	–	341

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

CSS(E)L Group and Company	2018	2017
Net rental expense (USD million)		
Minimum rentals	1	18
Total net rental expenses	1	18

During the year, the lease for 20 Columbus Courtyard was transferred to CSi.

Contingent Liabilities and Other Commitments

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

In late 2014, the Monte dei Paschi di Siena Foundation ('Foundation') filed a lawsuit in the Civil Court of Milan, Italy seeking EUR 3 billion in damages jointly from CSS(E)L, Banca Leonardo & Co S.p.A. and former members of the Foundation's management committee. The lawsuit relates to the fairness opinions CSS(E)L and Banca Leonardo & Co S.p.A. delivered to the Foundation in connection with the EUR 9 billion acquisition of Banca Antonveneta S.p.A. by Banca Monte dei Paschi di Siena S.p.A. (BMPS) in 2008. BMPS funded the acquisition by a EUR 5 billion rights offer and the issuance of irredeemable securities convertible into BMPS shares, in which the Foundation invested EUR 2.9 billion

and EUR 490 million respectively. The Foundation alleges that the fairness opinions were issued in the absence of key financial information. CSS(E)L believes that the claim lacks merit and is not supported by the available evidence. In November 2017, the Civil Court of Milan rejected the Foundation's claims, ruling in favour of CSS(E)L. In January 2018, the Foundation filed an appeal against this ruling.

On July 26, 2018, CSS(E)L, Credit Suisse Group AG and Credit Suisse AG received a Statement of Objections from the European Commission ('Commission'), alleging that Credit Suisse entities engaged in anticompetitive practices in connection with its foreign exchange trading business. The Statement of Objections sets out the Commission's preliminary views and does not prejudice the final outcome of its investigation.

On December 20, 2018, CSS(E)L and Credit Suisse Group AG received a Statement of Objections from the Commission, alleging that Credit Suisse entities engaged in anticompetitive practices in connection with its supranational, sub-sovereign, and agency (SSA) bonds trading business. The Statement of Objections sets out the Commission's preliminary views and does not prejudice the final outcome of its investigation.

38 Interests in Other Entities

Subsidiaries

Composition of the Group

Subsidiaries are entities (including structured entities) controlled by the CSS(E)L Group. The CSS(E)L Group 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. The financial statements of subsidiaries are included in the consolidated financial statements from the date on which control commences until the date on which control ceases.

The following table sets forth all the subsidiaries the CSS(E)L Group owns, directly or indirectly.

Composition of the Group

Entity	Domicile	Currency	Percentage of ownership held 2018 ¹	Percentage of ownership held 2017
Credit Suisse Client Nominees (UK) Limited	United Kingdom	USD	100%	100%
Credit Suisse First Boston PF (Europe) Limited	United Kingdom	USD	-	100%
Credit Suisse First Boston Trustees Limited	United Kingdom	GBP	100%	100%
Credit Suisse Guernsey AF Trust	Guernsey	USD	100%	100%
CSS(E)L Bare Trust	United States of America	USD	-	100%
CSS(E)L Guernsey Bare Trust	Guernsey	USD	100%	100%
Positive – Master Client LLC	United States of America	USD	-	100%
Redwood – Master Client Trust	United States of America	USD	-	100%
Redwood Funding Trust I	United States of America	USD	-	100%
Redwood Funding Trust II	United States of America	USD	-	100%
Redwood Guernsey I Funding Trust	Guernsey	USD	100%	100%
Redwood Guernsey I Master Trust	Guernsey	USD	100%	100%
Redwood Guernsey I SPIA Trust	Guernsey	USD	100%	100%
Redwood Guernsey II Funding Trust	Guernsey	USD	100%	100%
Redwood Guernsey II Master Trust	Guernsey	USD	100%	100%
Redwood Guernsey II SPIA Trust	Guernsey	USD	100%	100%
Redwood Master Trust I	United States of America	USD	-	100%
Redwood Master Trust II	United States of America	USD	-	100%
Redwood Trust I	United States of America	USD	-	100%
Redwood Trust II	United States of America	USD	-	100%
Sail Funding Trust I	United States of America	USD	-	100%
Sail Funding Trust II	United States of America	USD	-	100%
Sail Guernsey I Funding Trust	Guernsey	USD	100%	100%
Sail Guernsey I Master Trust	Guernsey	USD	100%	100%
Sail Guernsey I SPIA Trust	Guernsey	USD	100%	100%
Sail Guernsey II Funding Trust	Guernsey	USD	100%	100%
Sail Guernsey II Master Trust	Guernsey	USD	100%	100%
Sail Guernsey II SPIA Trust	Guernsey	USD	100%	100%
Sail Master Trust I	United States of America	USD	-	100%
Sail Master Trust II	United States of America	USD	-	100%
Sail Trust I	United States of America	USD	-	100%
Sail Trust II	United States of America	USD	-	100%

¹ Detailed Registered Office Address mentioned in Note-46 CSS(E)L's Subsidiaries and Associates

There are no material differences between the date of the end of the reporting period of the financial statements of the CSS(E)L Group and those of any of its subsidiaries (including any consolidated structured entities).

There were no significant changes in ownership during the year ended 31 December 2018 in relation to the CSS(E)L Group's

subsidiaries that resulted in a loss of control. Various trusts were closed during the year.

There were no significant changes in ownership during the year ended 31 December 2018 that resulted in a change in the consolidation conclusion.

The CSS(E)L Group has not provided financial or other support to consolidated structured entities that it was not contractually required to provide.

The CSS(E)L Group does not have the intention to provide financial or other support to consolidated structured entities that it is not contractually required to provide.

Restrictions

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

The Company 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 Company has put into place processes and controls to monitor and manage its capital adequacy. For more information regarding the Company's capital adequacy and how the capital resources are managed and monitored please refer to Note 44 – Capital Adequacy.

CSS(E)L is required to maintain minimum levels of capital in the form of equity shares and reserves to meet PRA requirements.

Restricted assets include those assets protected under client segregation rules. Please refer to Note 21 – Brokerage Receivables and Brokerage Payables for further information.

CSS(E)L Group pledges assets mainly for repurchase agreements and other securities financing. Certain pledged assets may be encumbered, meaning the counterparty has the right to resell or repledge the pledged asset. Please refer to Note 16 – Trading Financial Assets and Liabilities Mandatorily at Fair Value Through Profit or Loss for more information on encumbered assets.

Other restrictions include those that prevent some subsidiaries from making any distributions to the parent such as restrictions on redemption or the payments of dividends.

Unconsolidated structured entities

The CSS(E)L Group has interests in structured entities which are not consolidated. An interest is either a contractual or non-contractual involvement that exposes the CSS(E)L Group to variability in returns from the performance of another entity. An interest in another entity can be evidenced by, but is not limited to, the holding of equity or debt instruments as well as other forms of involvement such as the provision of funding, liquidity support, credit enhancement and guarantees. The CSS(E)L Group does not have an interest in another entity solely because of a Typical Customer Supplier Relationship such as, fees other than management and performance fees that are passively earned and are typically one-off in nature.

Type of structured entity

Securitisations

Securitisations are primarily Commercial Mortgage Backed Securities ('CMBS'), Residential Mortgage Backed Securities ('RMBS') and Asset Backed Securities ('ABS') vehicles. The CSS(E)L Group acts as an underwriter, market maker, liquidity provider, derivative counterparty and/or provider of credit enhancements to structured entities related to certain securitisation transactions.

The maximum exposure to loss is the carrying value of the loan securities and derivative positions that are variable returns if any, plus the exposure arising from any credit enhancements the CSS(E)L Group provided. The CSS(E)L Group's maximum exposure to loss does not include any effects from financial instruments used to economically hedge the risks of the structured entities.

Loans

Loans are single-financing vehicles where the CSS(E)L Group provides financing for specified assets or business ventures and the respective owner of the assets or manager of the businesses provides the equity in the vehicle. These tailored lending arrangements are established to purchase, lease or otherwise finance and manage clients' assets.

The maximum exposure to loss is the carrying value of the CSS(E)L Group's loan exposure, which is subject to the same credit risk management procedures as loans issued directly to clients. The clients' creditworthiness is carefully reviewed, loan-to-value ratios are strictly set and, in addition, clients provide equity, additional collateral or guarantees, all of which significantly reduce the CSS(E)L Group's exposure. The CSS(E)L Group considers the likelihood of incurring a loss equal to the maximum exposure to be remote because of the CSS(E)L Group's risk mitigation efforts which includes over-collateralisation and effective monitoring to ensure that a sufficient loan-to-value ratio is maintained.

Collateralised Debt Obligations ('CDO')

The CSS(E)L Group engages in CDO transactions to meet client and investor needs, earn fees and sell financial assets. The CSS(E)L Group may act as underwriter, placement agent or asset manager and may warehouse assets prior to the closing of a transaction. As part of its structured finance business, the CSS(E)L Group purchases loans and other debt obligations from and on behalf of clients for the purpose of securitisation. The loans and other debt obligations are sold to structured entities, which in turn issue CDOs to fund the purchase of assets such as investment grade and high yield corporate debt instruments.

The maximum exposure to loss consists of the fair value of instruments issued by such structures that are held by the CSS(E)L Group.

The following table provides the carrying amounts and classifications of the assets and liabilities of interests recorded in the CSS(E)L Group's Consolidated Statement of Financial Position,

the maximum exposure to loss and the total assets of the unconsolidated structured entities.

Interests in unconsolidated structured entities

2018	Type of Structured entity				Total
	Securitisations	CDO	Loans	Other Financial Intermediation	
Balance sheet line item (USD millions)					
Other liabilities	10	–	–	–	10
Maximum exposure to loss	–	–	–	–	–
Unconsolidated structured entity assets	20,663	449	63	510	21,685

2017	Type of Structured entity				Total
	Securitisations	CDO	Loans	Other Financial Intermediation	
Balance sheet line item (USD millions)					
Other liabilities	8	–	–	–	8
Maximum exposure to loss	–	–	–	–	–
Unconsolidated structured entity assets	10,768	485	–	–	11,253

The unconsolidated structured entity assets relate to where the CSS(E)L Group has an interest in the unconsolidated structured entity. These amounts represent the assets of the entities

themselves and are typically unrelated to the exposures the CSS(E)L Group has with the entity and thus are not amounts that are considered for risk management purposes.

Income from interests in unconsolidated structured entities

2018	Income earned				Total
	Fair value gain/(loss)	Interest income	Commission and fees		
Structured entity type (USD millions)					
Securitisations	–	1	3		4
Total	–	1	3		4

2017	Income earned				Total
	Fair value gain/(loss)	Interest income	Commission and fees		
Structured entity type (USD millions)					
Securitisations	3	5	1		9
Total	3	5	1		9

The table above shows the income earned from unconsolidated structured entities during the reporting period. Income from unconsolidated structured entities comprises changes in the fair value, interest income, commission and fees income of interests held with the unconsolidated structured entities.

The CSS(E)L Group considers itself the sponsor of a structured entity when either its name appears in the name of the structured entity or in products issued by it or there is a general expectation from the market that the CSS(E)L Group is associated with the structured entity or the CSS(E)L Group was involved in the design or set up of the structured entity and has a form of involvement with the structured entity.

The following table shows information about unconsolidated structured entities sponsored by the CSS(E)L Group where no interest is held by the CSS(E)L Group.

Sponsored unconsolidated structured entities

Structured entity type (USD millions)	Income/(losses)			Total
	Commissions and Fees	Derivative gain/(loss)	Other fair value gain/(loss)	
CDO	–	–	–	–
Loans	–	(246)	–	(246)
Securitisations	–	–	–	–
Total	–	(246)	–	(246)

Structured entity type (USD millions)	Income/(losses)			Total
	Commissions and Fees	Derivative gain/(loss)	Other fair value gain/(loss)	
CDO	–	–	–	–
Loans	–	(12)	–	(12)
Securitisations	–	–	2	2
Total	–	(12)	2	(10)

The previous table shows the income earned from the unconsolidated structured entities during the reporting period. Income from unconsolidated structured entities includes, but is not limited to recurring and non-recurring fees, interest and dividends income, gains or losses from the transfer of assets and liabilities and changes in the fair value of derivative instruments and other instruments held at fair value.

The CSS(E)L Group has not provided financial or other support to unconsolidated structured entities that it was not contractually required to provide.

The CSS(E)L Group does not have the intention to provide financial or other support to unconsolidated structured entities that it is not contractually required to provide.

39 Financial Instruments

The following disclosure of the CSS(E)L Group's financial instruments includes the following sections:

- Analysis of financial instruments by categories;
- Fair value measurement (including fair value hierarchy; transfers between levels; level 3 reconciliation; qualitative and quantitative disclosures of valuation techniques; sensitivity analysis of unobservable input parameters; and recognition of trade date profit); and
- 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 CSS(E)L Group's financial instruments.

Financial assets and liabilities by categories

31 December 2018 CSS(E)L Group	Carrying amount				Total fair value
	Total carrying value	Mandatorily at FVTPL	Designated at fair value	Other amortised cost	
Financial Assets (USD million)					
Cash and due from banks	2,615	–	–	2,615	2,615
Interest-bearing deposits with banks	7,421	–	–	7,421	7,421
Securities purchased under resale agreements and securities borrowing transactions	16,272	–	–	16,272	16,272
Trading financial assets mandatorily at fair value through profit or loss	19,645	19,645	–	–	19,645
Non-trading financial assets mandatorily at fair value through profit or loss	37,537	37,537	–	–	37,537
Other assets	10,069	5	–	10,064	10,069
Assets held for sale	1,847	500	–	1,347	1,847
Total financial assets	95,406	57,687	–	37,719	95,406

31 December 2018 CSS(E)L Group	Carrying Amount				Total fair value
	Total carrying value	Mandatorily at FVTPL	Designated at fair value	Other amortised cost	
Financial Liabilities (USD million)					
Deposits	262	–	–	262	262
Securities sold under repurchase agreements and securities lending transactions	6,045	–	–	6,045	6,045
Trading financial liabilities mandatorily at fair value through profit or loss	17,841	17,841	–	–	17,841
Financial liabilities designated at fair value through profit or loss	29,296	–	29,296	–	29,296
Borrowings	2,832	–	–	2,832	2,832
Other liabilities	14,615	3	–	14,612	14,615
Debt in issuance	12,837	–	–	12,837	13,294
Liabilities held for sale	4,056	122	13	3,921	4,056
Total financial liabilities	87,784	17,966	29,309	40,509	88,241

Financial assets and liabilities by categories

31 December 2017 CSS(E)L Group	Carrying amount					Total fair value
	Total carrying value	Held for trading	Designated at fair value	Available- for-sale	Other amortised cost	
Financial Assets (USD million)						
Cash and due from banks	2,662	–	–	–	2,662	2,662
Interest-bearing deposits with banks	20,272	–	–	–	20,272	20,272
Securities purchased under resale agreements and securities borrowing transactions	22,725	–	–	–	22,725	22,725
Trading financial assets mandatorily at fair value through profit or loss	23,132	23,132	–	–	–	23,132
Non-trading financial assets mandatorily at fair value through profit or loss	25,272	–	25,272	–	–	25,272
Financial assets available-for-sale	39	–	–	39	–	39
Other assets	8,049	–	–	–	8,049	8,049
Assets held for sale	21,440	6,313	–	–	15,127	21,440
Total financial assets	123,591	29,445	25,272	39	68,835	123,591

31 December 2017 CSS(E)L Group	Carrying Amount				Total fair value
	Total carrying value	Held for trading	Designated at fair value	Other amortised cost	
Financial Liabilities (USD million)					
Deposits	62	–	–	62	62
Securities sold under repurchase agreements and securities lending transactions	14,268	–	–	14,268	14,268
Trading financial liabilities mandatorily at fair value through profit or loss	12,616	12,616	–	–	12,616
Financial liabilities designated at fair value through profit or loss	28,456	–	28,456	–	28,456
Borrowings	5,512	–	–	5,512	5,512
Other liabilities	17,420	–	–	17,420	17,420
Debt in issuance	21,683	–	–	21,683	21,695
Liabilities held for sale	15,884	6,640	109	9,135	15,884
Total financial liabilities	115,901	19,256	28,565	68,080	115,913

Financial assets and liabilities by categories

31 December 2018 Company	Carrying amount				Total fair value
	Total carrying value	Mandatorily at FVTPL	Designated at fair value	Other amortised cost	
Financial Assets (USD million)					
Cash and due from banks	2,604	–	–	2,604	2,604
Interest-bearing deposits with banks	7,421	–	–	7,421	7,421
Securities purchased under resale agreements and securities borrowing transactions	16,272	–	–	16,272	16,272
Trading financial assets mandatorily at fair value through profit or loss	19,651	19,651	–	–	19,651
Non-trading financial assets mandatorily at fair value through profit or loss	37,516	37,516	–	–	37,516
Other assets	10,054	5	–	10,049	10,054
Assets held for sale	1,847	500	–	1,347	1,847
Total financial assets	95,365	57,672	–	37,693	95,365

31 December 2018 Company	Carrying Amount				Total fair value
	Total carrying value	Mandatorily at FVTPL	Designated at fair value	Other amortised cost	
Financial Liabilities (USD million)					
Deposits	262	–	–	262	262
Securities sold under repurchase agreements and securities lending transactions	6,045	–	–	6,045	6,045
Trading financial liabilities mandatorily at fair value through profit or loss	17,828	17,828	–	–	17,828
Financial liabilities designated at fair value through profit or loss	29,277	–	29,277	–	29,277
Borrowings	2,832	–	–	2,832	2,832
Other liabilities	14,610	3	–	14,607	14,610
Debt in issuance	12,837	–	–	12,837	13,294
Liabilities held for sale	4,056	122	13	3,921	4,056
Total financial liabilities	87,747	17,953	29,290	40,504	88,204

Financial assets and liabilities by categories

31 December 2017 Company	Total carrying value	Carrying amount				Total fair value
		Held for trading	Designated at fair value	Available- for-sale	Other amortised cost	
Financial Assets (USD million)						
Cash and due from banks	2,640	–	–	–	2,640	2,640
Interest-bearing deposits with banks	20,272	–	–	–	20,272	20,272
Securities purchased under resale agreements and securities borrowing transactions	22,725	–	–	–	22,725	22,725
Trading financial assets mandatorily at fair value through profit or loss	23,143	23,143	–	–	–	23,143
Non-trading financial assets mandatorily at fair value through profit or loss	25,214	–	25,214	–	–	25,214
Financial assets available-for-sale	39	–	–	39	–	39
Other assets	8,061	–	–	–	8,061	8,061
Assets held for sale	21,440	6,313	–	–	15,127	21,440
Total financial assets	123,534	29,456	25,214	39	68,825	123,534

31 December 2017 Company	Total carrying value	Carrying Amount				Total fair value
		Held for trading	Designated at fair value	Other amortised cost		
Financial Liabilities (USD million)						
Deposits	62	–	–	–	62	62
Securities sold under repurchase agreements and securities lending transactions	14,268	–	–	–	14,268	14,268
Trading financial liabilities mandatorily at fair value through profit or loss	12,587	12,587	–	–	–	12,587
Financial liabilities designated at fair value through profit or loss	28,446	–	28,446	–	–	28,446
Borrowings	5,512	–	–	–	5,512	5,512
Other liabilities	17,406	–	–	–	17,406	17,406
Debt in issuance	21,683	–	–	–	21,683	21,695
Liabilities held for sale	15,884	6,640	109	–	9,135	15,884
Total financial liabilities	115,848	19,227	28,555	68,066	115,860	115,860

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. A significant portion of the CSS(E)L Group's financial instruments are carried at fair value. Deterioration of financial markets could significantly impact the fair value of these financial instruments and the results of operations.

The fair value of the majority of the CSS(E)L Group's financial instruments is based on quoted prices in active markets or observable inputs. These instruments include government and agency securities, most investment grade corporate debt, certain high grade debt securities, exchange-traded and certain OTC derivative instruments and most listed equity securities.

In addition, the CSS(E)L Group 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 certain OTC derivatives including equity and credit derivatives, certain corporate equity-linked securities, mortgage-related securities, private equity investments, certain loans and credit products including leveraged finance and certain high yield bonds, and life finance instruments.

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 a counterparty, and are applied to both OTC derivatives and debt instruments. The impact of changes in a counterparty's credit spreads (known as credit valuation adjustments) is considered when

measuring the fair value of assets and the impact of changes in the CSS(E)L Group'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 CSS(E)L Group'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 CSS(E)L Group's credit exposure to a counterparty, such as collateral held and master netting agreements. For hybrid debt instruments with embedded derivative features, the impact of changes in the CSS(E)L Group's credit standing is considered when measuring their fair value, based on current funded debt spreads.

IFRS 13 permits a reporting entity to measure the fair value of a group of financial assets and financial liabilities on the basis of the price that would be received to sell a net long position or paid to transfer a net short position for a particular risk exposure in an orderly transaction between market participants at the measurement date. This is consistent with industry practice. As such, the CSS(E)L Group applies bid and offer adjustments to net portfolios of cash securities and/or derivative instruments to adjust the value of the net position from a mid-market price to the appropriate bid or offer level that would be realised under normal market conditions for the net long or net short position for a specific market risk. In addition, the CSS(E)L Group reflects the net maximum exposure to credit risk for its derivative instruments where the CSS(E)L Group has legally enforceable agreements with its counterparties that mitigate credit risk exposure in the event of default. Valuation adjustments are recorded in a reasonable and consistent manner that results in an allocation to the relevant disclosures in the notes to the financial statements as if the valuation adjustment had been allocated to the individual unit of account.

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 CSS(E)L Group 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 CSS(E)L Group'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 CSS(E)L Group's own data. The CSS(E)L Group's own data used to develop unobservable inputs is adjusted if information indicates that market participants would use different assumptions.

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

31 December 2018 CSS(E)L Group	Level 1	Level 2	Level 3	Impact of netting	Total at fair value
Assets (USD million)					
Debt securities	140	1,696	29	–	1,865
Of which UK governments	47	–	–	–	47
Of which foreign governments	93	198	–	–	291
Of which corporates	–	1,498	29	–	1,527
Equity securities	12,317	134	22	–	12,473
Derivatives	10	4,254	1,043	–	5,307
Of which interest rate products	6	870	–	–	876
Of which foreign exchange products	–	480	–	–	480
Of which equity/index-related products	4	2,899	25	–	2,928
Of which credit derivatives	–	5	–	–	5
Of which other derivatives	–	–	1,018	–	1,018
Trading financial assets mandatorily at fair value through profit or loss	12,467	6,084	1,094	–	19,645
Securities purchased under resale agreements and securities borrowing transactions	–	44,569	–	(8,164) ¹	36,405
Loans	–	–	3	–	3
Of which loans to financial institutions	–	–	3	–	3
Other Non-trading financial assets mandatorily at fair value through profit or loss	–	–	1,129	–	1,129
Of which life finance instruments	–	–	1,129	–	1,129
Non-trading financial assets mandatorily at fair value through profit or loss	–	44,569	1,132	(8,164)	37,537
Debt securities	–	–	–	–	–
Of which foreign governments	–	–	–	–	–
Of which corporates	–	–	–	–	–
Equity securities	382	–	–	–	382
Derivatives	–	118	–	–	118
Of which interest rate products	–	–	–	–	–
Of which foreign exchange products	–	–	–	–	–
Of which equity/index-related products	–	118	–	–	118
Of which credit derivatives	–	–	–	–	–
Assets Held for Sale	382	118	–	–	500
Total assets at fair value	12,849	50,771	2,226	(8,164)	57,682

¹ Securities purchased under resale agreements and securities borrowing transactions are reported on a gross basis by level. The impact of netting represents an adjustment related to counterparty netting.

² Fair value of hedging derivatives of USD 5 million is included in 'Other assets'. These are level 2 instruments.

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

31 December 2018
CSS(E)L Group

	Level 1	Level 2	Level 3	Impact of netting	Total at fair value
Liabilities (USD million)					
Debt securities	276	1,359	1	–	1,636
Of which UK governments	149	–	–	–	149
Of which foreign governments	127	204	–	–	331
of which corporates	–	1,155	1	–	1,156
Equity securities	10,542	71	3	–	10,616
Derivatives	3	4,837	749	–	5,589
Of which interest rate products	2	872	–	–	874
Of which foreign exchange products	–	397	–	–	397
Of which equity/index-related products	1	3,565	33	–	3,599
Of which credit derivatives	–	3	–	–	3
Of which other derivatives	–	–	716	–	716
Trading financial liabilities mandatorily at fair value through profit or loss	10,821	6,267	753	–	17,841
Securities sold under resale agreements and securities borrowing transactions	–	37,091	–	(8,164)¹	28,927
Debt in Issuance	–	190	38	–	228
of which other debt instruments over two years	–	190	38	–	228
Other financial liabilities designated at fair value through profit or loss	–	–	141	–	141
of which life finance instruments	–	–	141	–	141
Financial liabilities designated at fair value through profit or loss	–	37,281	179	(8,164)	29,296
Debt securities	–	–	–	–	–
Of which foreign governments	–	–	–	–	–
Of which corporates	–	–	–	–	–
Equity securities	–	–	–	–	–
Derivatives	–	122	–	–	122
Of which interest rate products	–	54	–	–	54
Of which foreign exchange products	–	–	–	–	–
Of which equity/index-related products	–	68	–	–	68
Of which credit derivatives	–	–	–	–	–
Debt in Issuance	–	13	–	–	13
of which other debt instruments over two years	–	13	–	–	13
Liabilities held for sale	–	135	–	–	135
Total liabilities at fair value	10,821	43,683	932	(8,164)	47,272

¹ Securities purchased under resale agreements and securities borrowing transactions are reported on a gross basis by level. The impact of netting represents an adjustment related to counterparty netting.

² Fair value of hedging derivatives of USD 3 million is included in 'Other liabilities'. These are level 2 instruments.

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

31 December 2018 Company	Level 1	Level 2	Level 3	Impact of netting	Total at fair value
Assets (USD million)					
Debt securities	140	1,696	29	–	1,865
Of which UK governments	47	–	–	–	47
Of which foreign governments	93	198	–	–	291
Of which corporates	–	1,498	29	–	1,527
Equity securities	12,317	134	22	–	12,473
Derivatives	10	4,273	1,030	–	5,313
Of which interest rate products	6	870	–	–	876
Of which foreign exchange products	–	480	–	–	480
Of which equity/index-related products	4	2,918	25	–	2,947
Of which credit derivatives	–	5	–	–	5
Of which other derivatives	–	–	1,005	–	1,005
Trading financial assets mandatorily at fair value through profit or loss	12,467	6,103	1,081	–	19,651
Securities purchased under resale agreements and securities borrowing transactions	–	44,569	–	(8,164) ¹	36,405
Loans	–	–	3	–	3
Of which loans to financial institutions	–	–	3	–	3
Other Non-trading financial assets mandatorily at fair value through profit or loss	–	–	1,108	–	1,108
Of which life finance instruments	–	–	1,108	–	1,108
Non-trading financial assets mandatorily at fair value through profit or loss	–	44,569	1,111	(8,164)	37,516
Debt securities	–	–	–	–	–
Of which corporates	–	–	–	–	–
Equity securities	382	–	–	–	382
Derivatives	–	118	–	–	118
Of which interest rate products	–	–	–	–	–
Of which foreign exchange products	–	–	–	–	–
Of which equity/index-related products	–	118	–	–	118
Assets Held for Sale	382	118	–	–	500
Total assets at fair value	12,849	50,790	2,192	(8,164)	57,667

¹ Securities purchased under resale agreements and securities borrowing transactions are reported on a gross basis by level.

The impact of netting represents an adjustment related to counterparty netting.

² Fair value of hedging derivatives of USD 5 million is included in 'Other assets'. These are level 2 instruments.

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

31 December 2018
Company

	Level 1	Level 2	Level 3	Impact of netting	Total at fair value
Liabilities (USD million)					
Debt securities	276	1,359	1	–	1,636
Of which UK governments	149	–	–	–	149
Of which foreign governments	127	204	–	–	331
Of which corporates	–	1,155	1	–	1,156
Equity securities	10,542	71	3		10,616
Derivatives	3	4,856	717	–	5,576
Of which interest rate products	2	872	–	–	874
Of which foreign exchange products	–	397	–	–	397
Of which equity/index-related products	1	3,584	33	–	3,618
Of which credit derivatives	–	3	–	–	3
Of which other derivatives	–	–	684	–	684
Trading financial liabilities mandatorily at fair value through profit or loss	10,821	6,286	721	–	17,828
Securities sold under resale agreements and securities borrowing transactions		37,091	–	(8,164) ¹	28,927
Debt In Issuance	–	190	30	–	220
of which other debt instruments over two years	–	190	30	–	220
Other financial liabilities designated at fair value through profit or loss	–	–	130	–	130
of which life finance instruments	–	–	130	–	130
Financial liabilities designated at fair value through profit or loss	–	37,281	160	(8,164)	29,277
Debt securities	–	–	–	–	–
Of which foreign governments	–	–	–	–	–
Of which corporates	–	–	–	–	–
Equity securities	–	–	–	–	–
Derivatives	–	122	–	–	122
Of which interest rate products	–	54	–	–	54
Of which foreign exchange products	–	–	–	–	–
Of which equity/index-related products	–	68	–	–	68
Of which credit derivatives	–	–	–	–	–
Debt In Issuance	–	13	–	–	13
of which other debt instruments over two years	–	13	–	–	13
Liabilities held for sale	–	135	–	–	135
Total liabilities at fair value	10,821	43,702	881	(8,164)	47,240

¹ Securities purchased under resale agreements and securities borrowing transactions are reported on a gross basis by level. The impact of netting represents an adjustment related to counterparty netting.

² Fair value of hedging derivatives of USD 3 million is included in 'Other liabilities'. These are level 2 instruments.

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

31 December 2017
CSS(E)L Group

	Level 1	Level 2	Level 3	Impact of netting	Total at fair value
Assets (USD million)					
Debt securities	426	1,974	73	–	2,473
Of which foreign governments	422	197	3	–	622
Of which corporates	4	1,762	69	–	1,835
Of which residential mortgage backed securities	–	15	1	–	16
Equity securities	16,337	356	10	–	16,703
Derivatives	15	2,932	1,009	–	3,956
Of which interest rate products	3	1,066	2	–	1,071
Of which foreign exchange products	1	291	–	–	292
Of which equity/index-related products	11	1,567	–	–	1,578
Of which credit derivatives	–	8	–	–	8
Of which other derivatives	–	–	1,007	–	1,007
Trading financial assets mandatorily at fair value through profit or loss	16,778	5,262	1,092	–	23,132
Interest-bearing deposits with banks, securities purchased under resale agreements and securities borrowing transactions	–	–	–	–	–
Securities purchased under resale agreements and securities borrowing transactions	–	34,054	–	(10,305)¹	23,749
Loans	–	–	10	–	10
Of which loans to financial institutions	–	–	10	–	10
Other financial assets designated at fair value through profit or loss	–	–	1,513	–	1,513
Of which life finance instruments	–	–	1,513	–	1,513
Of which failed purchases	–	–	–	–	–
Non-trading financial assets mandatorily at fair value through profit or loss	–	34,054	1,523	(10,305)	25,272
Financial assets available-for-sale	–	–	39	–	39
Debt securities	11	41	–	–	52
Of which foreign governments	–	–	–	–	–
Of which corporates	11	41	–	–	52
Equity securities	4,417	84	11	–	4,512
Derivatives	–	1,670	79	–	1,749
Of which interest rate products	–	–	–	–	–
Of which foreign exchange products	–	118	–	–	118
Of which equity/index-related products	–	1,552	79	–	1,631
Of which credit derivatives	–	–	–	–	–
Assets Held for Sale	4,428	1,795	90	–	6,313
Total assets at fair value	21,206	41,111	2,744	(10,305)	54,756

¹ Securities purchased under resale agreements and securities borrowing transactions are reported on a gross basis by level. The impact of netting represents an adjustment related to counterparty netting.

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

31 December 2017
CSS(E)L Group

	Level 1	Level 2	Level 3	Impact of netting	Total at fair value
Liabilities (USD million)					
Debt securities	640	1,432	–	–	2,072
Of which foreign governments	638	109	–	–	747
Of which corporates	2	1,323	–	–	1,325
of which collateral debt obligation	–	–	–	–	–
Equity securities	6,144	215	–	–	6,359
Derivatives	–	3,506	679	–	4,185
Of which interest rate products	–	1,169	2	–	1,171
Of which foreign exchange products	–	275	–	–	275
Of which equity/index-related products	–	2,009	–	–	2,009
Of which credit derivatives	–	53	–	–	53
Of which other derivatives	–	–	677	–	677
Others	–	–	–	–	–
Trading financial liabilities mandatorily at fair value through profit or loss	6,784	5,153	679	–	12,616
Securities sold under resale agreements and securities borrowing transactions	–	38,416	–	(10,305)¹	28,111
Debt in issuance	–	268	77	–	345
Of which treasury debt over two years	–	–	–	–	–
Of which non-recourse liabilities	–	–	–	–	–
Of which other debt instruments	–	268	77	–	345
Other financial liabilities designated at fair value through profit or loss	–	–	–	–	–
Of which failed sales	–	–	–	–	–
Financial liabilities designated at fair value through profit or loss	–	38,684	77	(10,305)	28,456
Debt	5	15	–	–	20
Of which foreign governments	1	–	–	–	1
Of which corporates	4	15	–	–	19
Equity securities	5,237	34	19	–	5,290
Derivatives	–	1,252	78	–	1,330
Of which interest rate products	–	–	–	–	–
Of which foreign exchange products	–	95	–	–	95
Of which equity/index-related products	–	1,157	78	–	1,235
Of which credit derivatives	–	–	–	–	–
Securities sold under repurchase agreements and securities lending transactions	–	–	–	–	–
Long-term debt	–	109	–	–	109
Of which debt instruments	–	109	–	–	109
Liabilities held for sale	5,242	1,410	97	–	6,749
Total liabilities at fair value	12,026	45,247	853	(10,305)	47,821

¹ Securities purchased under resale agreements and securities borrowing transactions are reported on a gross basis by level.
The impact of netting represents an adjustment related to counterparty netting.

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

31 December 2017
Company

	Level 1	Level 2	Level 3	Impact of netting	Total at fair value
Assets (USD million)					
Debt securities	426	1,974	73	–	2,473
Of which foreign governments	422	197	3	–	622
Of which corporates	4	1,762	69	–	1,835
Of which residential mortgage backed securities	–	15	1	–	16
Equity securities	16,337	356	10	–	16,703
Derivatives	15	2,951	1,001	–	3,967
Of which interest rate products	3	1,066	2	–	1,071
Of which foreign exchange products	1	291	–	–	292
Of which equity/index-related products	11	1,567	–	–	1,578
Of which credit derivatives	–	8	–	–	8
Of which other derivatives	–	19	999	–	1,018
Trading financial assets at fair value through profit or loss	16,778	5,281	1,084	–	23,143
Securities purchased under resale agreements and securities borrowing transactions	–	34,054	–	(10,305)¹	23,749
Loans	–	–	10	–	10
Of which loans to financial institutions	–	–	10	–	10
Other financial assets designated at fair value through profit or loss	–	–	1,455	–	1,455
Of which life finance instruments	–	–	1,455	–	1,455
Of which failed purchases	–	–	–	–	–
Financial assets designated at fair value through profit or loss	–	34,054	1,465	(10,305)	25,214
Financial assets available-for-sale	–	–	39	–	39
Debt securities	11	41	–	–	52
Of which foreign governments	–	–	–	–	–
Of which corporates	11	41	–	–	52
Equity securities	4,417	84	11	–	4,512
Derivatives	–	1,670	79	–	1,749
Of which interest rate products	–	–	–	–	–
Of which foreign exchange products	–	118	–	–	118
Of which Precious metal contracts	–	–	–	–	–
Of which equity/index-related products	–	1,552	79	–	1,631
Of which credit derivatives	–	–	–	–	–
Of which other derivatives	–	–	–	–	–
Assets Held for Sale	4,428	1,795	90	–	6,313
Total assets at fair value	21,206	41,130	2,678	(10,305)	54,709

¹ Securities purchased under resale agreements and securities borrowing transactions are reported on a gross basis by level. The impact of netting represents an adjustment related to counterparty netting.

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

31 December 2017
Company

	Level 1	Level 2	Level 3	Impact of netting	Total at fair value
Liabilities (USD million)					
Debt securities	640	1,432	–	–	2,072
Of which foreign governments	638	109	–	–	747
Of which corporates	2	1,323	–	–	1,325
Equity securities	6,144	215	–	–	6,359
Derivatives	–	3,525	631	–	4,156
Of which interest rate products	–	1,169	2	–	1,171
Of which foreign exchange products	–	275	–	–	275
Of which equity/index-related products	–	2,009	–	–	2,009
Of which credit derivatives	–	53	–	–	53
Of which other derivatives	–	19	629	–	648
Trading financial liabilities mandatorily at fair value through profit or loss	6,784	5,172	631	–	12,587
Securities sold under resale agreements and securities borrowing transactions	–	38,416	–	(10,305)¹	28,111
Debt in issuance	–	266	69	–	335
Of which structured notes over two years	–	–	–	–	–
Of which other debt instruments	–	266	69	–	335
Other financial liabilities designated at fair value through profit or loss	–	–	–	–	–
Of which failed sales	–	–	–	–	–
Financial liabilities designated at fair value through profit or loss	–	38,682	69	(10,305)	28,446
Debt securities	5	15	–	–	20
Of which foreign governments	1	–	–	–	1
Of which corporates	4	15	–	–	19
Equity securities	5,237	34	19	–	5,290
Derivatives	–	1,252	78	–	1,330
Of which interest rate products	–	–	–	–	–
Of which foreign exchange products	–	95	–	–	95
Of which equity/index-related products	–	1,157	78	–	1,235
Of which credit derivatives	–	–	–	–	–
Debt in issuance	–	109	–	–	109
Of which debt instruments	–	109	–	–	109
Liabilities held for sale	5,242	1,410	97	–	6,749
Total liabilities at fair value	12,026	45,264	797	(10,305)	47,782

¹ Securities purchased under resale agreements and securities borrowing transactions are reported on a gross basis by level.
The impact of netting represents an adjustment related to counterparty netting.

Transfers between level 1 and level 2

Transfers out of level 1 to level 2 are primarily driven by debt and equity securities where there is lack of activity in market or low trading volume. Transfers to level 1 out of level 2 are primarily driven by debt and equity securities where the values become

observable or higher trading volume and subsequently lacked pricing transparency. All transfers were reported at the end of the reporting period.

The following table shows the transfers from level 1 to level 2 and from level 2 to level 1 of the fair value hierarchy.

CSS(E)L Group and Company	2018 ¹		2017 ¹	
	Transfers out of level 1 to level 2	Transfers to level 1 out of level 2	Transfers out of level 1 to level 2	Transfers to level 1 out of level 2
Assets (USD million)				
Trading financial assets mandatorily at fair value through profit or loss	180	413	280	826
Total transfers in assets at fair value	180	413	280	826
Liabilities (USD million)				
Trading financial liabilities mandatorily at fair value through profit or loss	89	107	182	127
Total transfers in liabilities at fair value	89	107	182	127

¹ Amounts in the above table includes both continued and discontinued operations.

Movements of level 3 instruments

The following table presents a reconciliation of financial instruments categorised in level 3 of the fair value hierarchy.

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

As at December 2018	Balance at beginning of period	Transfers in	Transfers out	Purchases	Sales	Issuances	Settlements	On transfers in/out ¹	Trading revenues	Gains/(Losses) included in OCI	Balance at end of period
CSS(E)L Group Assets											
Assets at fair value (USD million)											
Debt securities	73	22	(27)	4	(54)	-	-	(1)	12	-	29
Of which foreign governments	3	-	-	-	(3)	-	-	-	-	-	-
Of which corporates	69	22	(27)	4	(51)	-	-	(1)	13	-	29
Of which residential mortgage backed securities	1	-	-	-	-	-	-	-	(1)	-	-
Of which commercial mortgage backed securities	-	-	-	-	-	-	-	-	-	-	-
Equity securities	10	38	(30)	14	(76)	-	-	(1)	67	-	22
Derivatives	1,009	24	(11)	-	-	344	(417)	21	73	-	1,043
Of which interest rate products	2	-	(2)	-	-	-	-	-	-	-	-
Of which equity/index-related products	-	24	(9)	-	-	-	(15)	21	4	-	25
Of which credit derivatives	-	-	-	-	-	-	-	-	-	-	-
Of which other derivatives	1,007	-	-	-	-	344	(402)	-	69	-	1,018
Trading financial assets mandatorily at fair value through profit or loss	1,092	84	(68)	18	(130)	344	(417)	19	152	-	1,094
Securities purchased under resale agreements and securities borrowing transactions	-	-	-	-	-	-	-	-	-	-	-
Loans	10	-	-	-	-	-	(7)	-	-	-	3
Of which loans to financial institutions	10	-	-	-	-	-	(7)	-	-	-	3
Other Non-trading financial assets designated at fair value through profit or loss	1,513	-	-	212	(479)	-	-	-	(117)	-	1,129
Of which life finance instruments	1,513	-	-	212	(479)	-	-	-	(117)	-	1,129
Of which failed purchases	-	-	-	-	-	-	-	-	-	-	-
Equity securities	39²	-	-	-	(39)	-	-	-	-	-	-
Non-trading financial assets designated at fair value through profit or loss	1,562	-	-	212	(518)	-	(7)	-	(117)	-	1,132
Equity securities	11	-	(11)	-	-	-	-	-	-	-	-
Derivatives	79	-	-	-	-	-	(79)	-	-	-	-
Of which equity/index-related products	79	-	-	-	-	-	(79)	-	-	-	-
Assets held for sale	90	-	(11)	-	-	-	(79)	-	-	-	-
Total assets at fair value	2,744	84	(79)	230	(648)	344	(503)	19	35	-	2,226

¹ For all the transfers to level 3 or out of level 3, the CSS(E)L Group determines and discloses as level 3 events only gains or losses through the last day of the reporting period.

² Financial assets available for sale category is no longer applicable under IFRS 9. Accordingly, securities aggregating USD 39 million were transferred from 'available for sale' category to 'Non-trading assets mandatorily at fair valued through profit or loss' with the implementation of IFRS 9.

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

As at December 2018	Balance at beginning of period	Transfers in	Transfers out	Purchases	Sales	Issuances	Settlements	Trading revenues	Gains/ (Losses) included in OCI	Balance at end of period	
CSS(E)L Group Liabilities											
Liabilities at fair value (USD million)											
Debt securities	-	1	-	5	-	-	-	-	(5)	-	1
Of which corporates	-	1	-	5	-	-	-	-	(5)	-	1
Equity securities	-	34	(3)	-	(21)	-	-	(3)	(4)	-	3
Derivatives	679	25	(7)	-	-	287	(280)	42	3	-	749
Of which interest rate products	2	-	(2)	-	-	-	-	-	-	-	-
Of which equity/index-related products	-	25	(5)	-	-	-	(37)	42	8	-	33
Of which credit derivatives	-	-	-	-	-	-	-	-	-	-	-
Of which other derivatives	677	-	-	-	-	287	(243)	-	(5)	-	716
Trading financial liabilities mandatorily at fair value through profit or loss	679	60	(10)	5	(21)	287	(280)	39	(6)	-	753
Debt In Issuance	77	-	-	-	-	80	(80)	-	(39)	-	38
Of which non recourse liabilities	-	-	-	-	-	-	-	-	-	-	-
of which other debt instruments over two years	77	-	-	-	-	80	(80)	-	(39)	-	38
Other financial liabilities designated at fair value through profit or loss	-	-	-	35	(22)	-	-	-	128	-	141
of which life finance instruments	-	-	-	35	(22)	-	-	-	128	-	141
Financial liabilities designated at fair value through profit or loss	77	-	-	35	(22)	80	(80)	-	89	-	179
Equity securities	19	-	(19)	-	-	-	-	-	-	-	-
Derivatives	78	-	-	-	-	-	(78)	-	-	-	-
Of which equity/index-related products	78	-	-	-	-	-	(78)	-	-	-	-
Liabilities held for sale	97	-	(19)	-	-	-	(78)	-	-	-	-
Total liabilities at fair value	853	60	(29)	40	(43)	367	(438)	39	83	-	932

¹ For all the transfers to level 3 or out of level 3, the CSS(E)L Group determines and discloses as level 3 events only gains or losses through the last day of the reporting period.

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

As at December 2018	Balance at beginning of period	Transfers in	Transfers out	Purchases	Sales	Issuances	Settlements	On transfers in/out ¹	Trading revenues	Gains/(Losses) included in OCI	Balance at end of period
Company Assets											
Assets at fair value (USD million)											
Debt securities	73	22	(27)	4	(54)	-	-	(1)	12	-	29
Of which foreign governments	3	-	-	-	(3)	-	-	-	-	-	-
Of which corporates	69	22	(27)	4	(51)	-	-	(1)	13	-	29
Of which residential mortgage backed securities	1	-	-	-	-	-	-	-	(1)	-	-
Of which commercial mortgage backed securities	-	-	-	-	-	-	-	-	-	-	-
Equity securities	10	38	(30)	14	(76)	-	-	(1)	67	-	22
Derivatives	1,001	24	(11)	-	-	344	(417)	21	68	-	1,030
Of Which interest rate products	2	-	(2)	-	-	-	-	-	-	-	-
Of which equity/index-related products	-	24	(9)	-	-	-	(15)	21	4	-	25
Of which credit derivatives	-	-	-	-	-	-	-	-	-	-	-
Of which other derivatives	999	-	-	-	-	344	(402)	-	64	-	1,005
Trading financial assets mandatorily at fair value through profit or loss	1,084	84	(68)	18	(130)	344	(417)	19	147	-	1,081
Securities purchased under resale agreements and securities borrowing transactions	-	-	-	-	-	-	-	-	-	-	-
Loans	10	-	-	-	-	-	(7)	-	-	-	3
Of which loans to financial institutions	10	-	-	-	-	-	(7)	-	-	-	3
Other Non-trading financial assets mandatorily at fair value through profit or loss	1,455	-	-	111	(340)	-	-	-	(118)	-	1,108
Of which life finance instruments	1,455	-	-	111	(340)	-	-	-	(118)	-	1,108
Equity securities	39²	-	-	-	(39)	-	-	-	-	-	-
Non-trading financial assets mandatorily at fair value through profit or loss	1,504	-	-	111	(379)	-	(7)	-	(118)	-	1,111
Equity securities	11	-	(11)	-	-	-	-	-	-	-	-
Derivatives	79	-	-	-	-	-	(79)	-	-	-	-
Of which equity/index-related products	79	-	-	-	-	-	(79)	-	-	-	-
Assets held for sale	90	-	(11)	-	-	-	(79)	-	-	-	-
Total assets at fair value	2,678	84	(79)	129	(509)	344	(503)	19	29	-	2,192

¹ For all the transfers to level 3 or out of level 3, the CSS(E)L Group determines and discloses as level 3 events only gains or losses through the last day of the reporting period.

² Financial assets available for sale category is no longer applicable under IFRS 9. Accordingly, securities aggregating USD 39 million were transferred from 'available for sale' category to 'Non-trading assets mandatorily at fair valued through profit or loss' with the implementation of IFRS 9.

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

As at December 2018	Balance at beginning of period	Transfers in	Transfers out	Purchases	Sales	Issuances	Settlements	Trading revenues	Gains/(Losses) included in OCI	Balance at end of period	
Company Liabilities											
Liabilities at fair value (USD million)											
Debt securities	-	1	-	5	-	-	-	-	(5)	-	1
Of which corporates	-	1	-	5	-	-	-	-	(5)	-	1
Equity securities	-	34	(3)	-	(21)	-	-	(3)	(4)	-	3
Derivatives	631	25	(7)	-	-	282	(266)	42	10	-	717
Of which interest rate products	2	-	(2)	-	-	-	-	-	-	-	-
Of which equity/index-related products	-	25	(5)	-	-	-	(37)	42	8	-	33
Of which credit derivatives	-	-	-	-	-	-	-	-	-	-	-
Of which other derivatives	629	-	-	-	-	282	(229)	-	2	-	684
Trading financial liabilities mandatorily at fair value through profit or loss	631	60	(10)	5	(21)	282	(266)	39	1	-	721
Borrowings	69	-	-	-	-	80	(80)	-	(39)	-	30
Of which structured notes over two years	-	-	-	-	-	-	-	-	-	-	-
Of which other debt instruments	69	-	-	-	-	80	(80)	-	(39)	-	30
Other financial liabilities designated at fair value through profit or loss	-	-	-	21	(21)	-	-	-	130	-	130
of which life finance instruments	-	-	-	21	(21)	-	-	-	130	-	130
Financial liabilities designated at fair value through profit or loss	69	-	-	21	(21)	80	(80)	-	91	-	160
Equity securities	19	-	(19)	-	-	-	-	-	-	-	-
Derivatives	78	-	-	-	-	-	(78)	-	-	-	-
Of which equity/index-related products	78	-	-	-	-	-	(78)	-	-	-	-
Liabilities held for sale	97	-	(19)	-	-	-	(78)	-	-	-	-
Total liabilities at fair value	797	60	(29)	26	(42)	362	(424)	39	92	-	881

¹ For all the transfers to level 3 or out of level 3, the CSS(E)L Group determines and discloses as level 3 events only gains or losses through the last day of the reporting period.

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

As at December 2017	Balance at beginning of period	Transfers in	Transfers out	Purchases	Sales	Issuances	Settlements	On transfers in/out ¹	Trading revenues	On all other	Gains/(Losses) included in OCI	Balance at end of period
CSS(E)L Group Assets												
Assets at fair value (USD million)												
Debt securities	72	21	(19)	54	(35)	-	-	1	(21)	-	-	73
Of which foreign governments	-	-	-	3	-	-	-	-	-	-	-	3
Of which corporates	68	21	(19)	49	(33)	-	-	1	(18)	-	-	69
Of which residential mortgage backed securities	4	-	-	2	(2)	-	-	-	(3)	-	-	1
Of which commercial mortgage backed securities	-	-	-	-	-	-	-	-	-	-	-	-
Of which collateralised debt obligations	-	-	-	-	-	-	-	-	-	-	-	-
Equity securities	23	9	(3)	7	(34)	-	-	1	7	-	-	10
Derivatives	822	-	-	-	-	337	(214)	-	64	-	-	1,009
Of which interest rate products	-	-	-	-	-	2	(2)	-	2	-	-	2
Of which equity/index-related products	2	-	-	-	-	9	(11)	-	-	-	-	-
Of which credit derivatives	6	-	-	-	-	-	(1)	-	(5)	-	-	-
Of which other derivatives	814	-	-	-	-	326	(200)	-	67	-	-	1,007
Trading financial assets mandatorily at fair value through profit or loss	917	30	(22)	61	(69)	337	(214)	2	50	-	-	1,092
Securities purchased under resale agreements and securities borrowing transactions	170	-	-	-	-	26	(196)	-	-	-	-	-
Loans	49	-	-	-	-	-	-	-	(39)	-	-	10
Of which loans to financial institutions	49	-	-	-	-	-	-	-	(39)	-	-	10
Other financial assets designated at fair value through profit or loss	1,923	-	-	227	(647)	-	-	-	10	-	-	1,513
Of which life finance instruments	1,767	-	-	199	(463)	-	-	-	10	-	-	1,513
Of which failed purchases	156	-	-	28	(184)	-	-	-	-	-	-	-
Financial assets designated at fair value through profit or loss	2,142	-	-	227	(647)	26	(196)	-	(29)	-	-	1,523
Financial assets available-for-sale	33	-	-	-	(7)	-	-	-	-	-	13	39
Equity securities	11	-	-	-	(2)	-	-	1	1	-	-	11
Derivatives	18	29	(14)	-	-	2	(15)	21	38	-	-	79
Of which equity/index-related products	18	29	(14)	-	-	2	(15)	21	38	-	-	79
Assets held for sale	29	29	(14)	-	(2)	2	(15)	22	39	-	-	90
Total assets at fair value	3,121	59	(36)	288	(725)	365	(425)	24	60	13	-	2,744

¹ For all the transfers to level 3 or out of level 3, the CSS(E)L Group determines and discloses as level 3 events only gains or losses through the last day of the reporting period.

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

As at December 2017	Balance at beginning of period	Transfers in	Transfers out	Purchases	Sales	Issuances	Settlements	Trading revenues	Gains/ (Losses) included in OCI	Balance at end of period
								On transfers in/out ¹	On all other	
CSS(E)L Group Liabilities										
Liabilities at fair value (USD million)										
Debt securities	1	-	-	-	(1)	-	-	-	-	-
Of which corporates	1	-	-	-	(1)	-	-	-	-	-
Equity securities	-	-	-	-	-	-	-	-	-	-
Derivatives	656	-	-	-	-	256	(268)	-	35	679
Of which interest rate products	2	-	-	-	-	3	-	-	(3)	2
Of which equity/index-related products	3	-	-	-	-	15	(22)	-	4	-
Of which credit derivatives	-	-	-	-	-	-	-	-	-	-
Of which other derivatives	651	-	-	-	-	238	(246)	-	34	677
Trading financial liabilities mandatorily at fair value through profit or loss	657	-	-	-	(1)	256	(268)	-	35	679
Debt in issuance	94	-	-	-	-	14	(31)	-	-	77
Of which non recourse liabilities	-	-	-	-	-	-	-	-	-	-
Of which other debt instruments	94	-	-	-	-	14	(31)	-	-	77
Other financial liabilities designated at fair value through profit or loss	-	-	-	-	-	-	-	-	-	-
Of which failed sales	-	-	-	-	-	-	-	-	-	-
Financial liabilities designated at fair value through profit or loss	94	-	-	-	-	14	(31)	-	-	77
Equity securities	6	40	(8)	3	(9)	-	-	(7)	(6)	19
Derivatives	24	7	(21)	-	-	10	(153)	28	183	78
Of which equity/index-related products	24	7	(21)	-	-	10	(153)	28	183	78
Liabilities held for sale	30	47	(29)	3	(9)	10	(153)	21	177	97
Total liabilities at fair value	781	47	(29)	3	(10)	280	(452)	21	212	853

¹ For all the transfers to level 3 or out of level 3, the CSS(E)L Group determines and discloses as level 3 events only gains or losses through the last day of the reporting period.

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

As at December 2017	Balance at beginning of period	Transfers in	Transfers out	Purchases	Sales	Issuances	Settlements	Trading revenues	Gains/ (Losses) included in OCI	Balance at end of period	
								On transfers in/out ¹	On all other		
Company Assets											
Assets at fair value (USD million)											
Debt securities	72	21	(19)	54	(35)	-	-	1	(21)	-	73
Of which foreign governments	-	-	-	3	-	-	-	-	-	-	3
Of which corporates	68	21	(19)	49	(33)	-	-	1	(18)	-	69
Of which residential mortgage backed securities	4	-	-	2	(2)	-	-	-	(3)	-	1
Of which commercial mortgage backed securities	-	-	-	-	-	-	-	-	-	-	-
Equity securities	23	9	(3)	7	(34)	-	-	1	7	-	10
Derivatives	1,356	-	-	-	-	368	(789)	-	66	-	1,001
Of which interest rate products	-	-	-	-	-	2	(2)	-	2	-	2
Of which equity/index-related products	2	-	-	-	-	9	(11)	-	-	-	-
Of which credit derivatives	6	-	-	-	-	-	(1)	-	(5)	-	-
Of which other derivatives	1,348	-	-	-	-	357	(775)	-	69	-	999
Trading financial assets mandatorily at fair value through profit or loss	1,451	30	(22)	61	(69)	368	(789)	2	52	-	1,084
Securities purchased under resale agreements and securities borrowing transactions	170	-	-	-	-	26	(196)	-	-	-	-
Loans	49	-	-	-	-	-	-	-	(39)	-	10
Of which loans to financial institutions	49	-	-	-	-	-	-	-	(39)	-	10
Other financial assets designated at fair value through profit or loss	1,320	-	-	272	(121)	-	-	-	(16)	-	1,455
Of which life finance instruments	1,320	-	-	272	(121)	-	-	-	(16)	-	1,455
Of which failed purchases	-	-	-	-	-	-	-	-	-	-	-
Financial assets designated at fair value through profit or loss	1,539	-	-	272	(121)	26	(196)	-	(55)	-	1,465
Financial assets available-for-sale	33	-	-	-	(7)	-	-	-	-	13	39
Equity securities	11	-	-	-	(2)	-	-	1	1	-	11
Derivatives	18	29	(14)	-	-	2	(15)	21	38	-	79
Of which equity/index-related products	18	29	(14)	-	-	2	(15)	21	38	-	79
Assets held for sale	29	29	(14)	-	(2)	2	(15)	22	39	-	90
Total assets at fair value	3,052	59	(36)	333	(199)	396	(1,000)	24	36	13	2,678

¹ For all the transfers to level 3 or out of level 3, the CSS(E)L Group determines and discloses as level 3 events only gains or losses through the last day of the reporting period.

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

As at December 2017	Balance at beginning of period	Transfers in	Transfers out	Purchases	Sales	Issuances	Settlements	Trading revenues	Gains/(Losses) included in OCI	Balance at end of period
								On transfers in/out ¹	On all other	
Company Liabilities										
Liabilities at fair value (USD million)										
Debt securities	1	-	-	-	(1)	-	-	-	-	-
Of which corporates	1	-	-	-	(1)	-	-	-	-	-
Equity securities	-	-	-	-	-	-	-	-	-	-
Derivatives	605	-	-	-	-	248	(263)	-	41	631
Of which interest rate products	2	-	-	-	-	3	-	-	(3)	2
Of which equity/index-related products	3	-	-	-	-	15	(22)	-	4	-
Of which credit derivatives	-	-	-	-	-	-	-	-	-	-
Of which other derivatives	600	-	-	-	-	230	(241)	-	40	629
Trading financial liabilities mandatorily at fair value through profit or loss	606	-	-	-	(1)	248	(263)	-	41	631
Debt in issuance	82	-	-	-	-	13	(28)	-	2	69
Of which structured notes over two years	-	-	-	-	-	-	-	-	-	-
Of which other debt instruments	82	-	-	-	-	13	(28)	-	2	69
Other financial liabilities designated at fair value through profit or loss	-	-	-	-	-	-	-	-	-	-
Of which failed sales	-	-	-	-	-	-	-	-	-	-
Financial liabilities designated at fair value through profit or loss	82	-	-	-	-	13	(28)	-	2	69
Equity securities	6	40	(8)	3	(9)	-	-	(7)	(6)	19
Derivatives	24	7	(21)	-	-	10	(153)	28	183	78
Of which equity/index-related products	24	7	(21)	-	-	10	(153)	28	183	78
Liabilities held for sale	30	47	(29)	3	(9)	10	(153)	21	177	97
Total liabilities at fair value	718	47	(29)	3	(10)	271	(444)	21	220	797

¹ For all the transfers to level 3 or out of level 3, the CSS(E)L Group determines and discloses as level 3 events only gains or losses through the last day of the reporting period.

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

Trading revenues (USD million)	As at 31 December 2018		As at 31 December 2017	
	CSS(E)L Group	Company	CSS(E)L Group	Company
Net realised/unrealised gains/(losses) included in net revenues	(68)	(83)	(149)	(181)
Whereof:				
Changes in unrealised gains/(losses) relating to assets and liabilities still held as of the reporting date				
Trading financial assets mandatorily at fair value through profit or loss	80	75	61	60
Non-trading financial assets mandatorily at fair value through profit or loss	24	-	na	na ¹
Financial assets designated at fair value through profit or loss	-	-	9	(16)
Trading financial liabilities mandatorily at fair value through profit or loss	(50)	(57)	(62)	(63)
Financial liabilities designated at fair value through profit or loss	(205)	(205)	3	6
Changes in unrealised gains/(losses) relating to assets and liabilities held for sale as of the reporting date	(151)	(187)	11	(13)
Financial assets held for sale	-	-	58	58
Financial liabilities held for sale	-	-	(74)	(74)
Net realised/unrealised gains/(losses) included in OCI	-	-	-	-
Changes in unrealised gains/(losses) relating to assets and liabilities still held as of the reporting date				
Total changes in unrealised gains/(losses) relating to assets and liabilities still held as of the reporting date	(151)	(187)	(5)	(29)

¹ na – not applicable. These financial statements captions or disclosures apply under IFRS 9 adopted in the current year, and were not applicable under IAS 39 'Financial Instruments'.

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

The CSS(E)L Group employs various economic hedging techniques in order to manage risks, including risks in Level 3 positions. Such techniques may include the purchase or sale of financial instruments that are classified in Levels 1 and/or 2. The realised and unrealised gains and losses for assets and liabilities in Level 3 presented in the previous table do not reflect the related realised or unrealised gains and losses arising on economic hedging instruments classified in Levels 1 and/or 2.

Transfers in and out of level 3

Trading financial assets mandatorily at fair value through profit or loss

Trading financial assets transferred into and out of level 3 in 2018 amounted to USD 84 million and USD 68 million respectively for Group and Company. USD 22 million of transfers into level 3 was related to debt securities, USD 38 million of transfer into level 3 related to equity securities due to limited observability of pricing data and reduced pricing information from external providers and USD 24 million of transfers into level 3 was related to derivatives due to limited observability of pricing data and reduced pricing information from external providers. USD 27 million of transfers out of level 3 largely comprises of debt securities, USD 30 million was related to equity securities due to improved observability of pricing data and increased availability of pricing information from external providers.

Assets held for sale transferred into and out of level 3 in 2018 amounted to Nil and USD 11 million, respectively for Group and Company. USD 11 million of assets held for sale transfers into level 3 was related to equity securities due to limited observability of pricing data and reduced pricing information from external providers.

Trading financial assets transferred into and out of level 3 in 2017 amounted to USD 30 million and USD 22 million, respectively for Group and Company. USD 21 million of transfers into level 3 was related to debt securities and USD 9 million of transfer into level 3 related to equity securities due to limited observability of pricing data and reduced pricing information from external providers. USD 19 million of transfers out of level 3 largely comprises of debt securities and USD 3 million was related to equity securities due to improved observability of pricing data and increased availability of pricing information from external providers.

Assets held for sale transferred into and out of level 3 in 2017 amounted to USD 29 million and USD 14 million, respectively for Group and Company. USD 29 million of assets held for sale transfers into level 3 was related to derivatives due to limited

observability of pricing data and reduced pricing information from external providers.

Trading financial liabilities mandatorily at fair value through profit or Loss

Trading financial liabilities transferred into and out of level 3 in 2018 amounted to USD 60 million and USD 10 million for Group and Company both. USD 1 million of transfers into level 3 was related to debt securities, USD 34 million of transfer into level 3 related to equity securities due to limited observability of pricing data and reduced pricing information from external providers and USD 25 million of transfers into level 3 was related to derivatives due to limited observability of pricing data and reduced pricing information from external providers.

USD 3 million of transfers out of level 3 largely comprises of equity securities due to improved observability of pricing data and increased availability of pricing information from external providers and USD 7 million of transfers out of level 3 was related to derivatives due to limited observability of pricing data and reduced pricing information from external providers.

Trading financial liabilities transferred into and out of level 3 in 2017 amounted to USD Nil for Group and Company both.

Liabilities held for sale transferred into and out of level 3 in 2018 amounted to Nil and USD 19 million, respectively for Group and Company. USD 19 million of liabilities held for sale transfers out of level 3 relates to equity securities due to improved observability of pricing data and increased availability of pricing information from external providers.

Liabilities held for sale transferred into and out of level 3 in 2017 amounted to USD 47 million and USD 29 million, respectively for Group and Company. USD 47 million of liabilities held for sale transfers into level 3 relates to USD 40 million Equity and USD 7 million derivatives due to limited observability of pricing data and reduced pricing information from external providers.

Qualitative disclosures of valuation techniques

The CSS(E)L Group has implemented and maintains a valuation control framework, which is supported by policies and procedures that define the principles for controlling the valuation of the CSS(E)L Group's financial instruments. Product Control and Risk Management create, review and approve significant valuation policies and procedures. The framework includes three main internal processes: (i) valuation governance; (ii) independent price verification and significant unobservable inputs review; and (iii) a cross-functional pricing model review. Through this framework, the CSS(E)L Group determines the reasonableness of the fair value of its financial instruments.

On a monthly basis, meetings are held for each business line with senior representatives of the Business and Product Control to discuss independent price verification results, valuation

adjustments, and other significant valuation issues. On a quarterly basis, a review of significant changes in the fair value of financial instruments is undertaken by Product Control and conclusions are reached regarding the reasonableness of those changes. Additionally, on a quarterly basis, meetings are held for each business line with senior representatives of the Business, Product Control, Risk Management, and Financial Accounting to discuss independent price verification results, valuation issues, business and market updates, as well as a review of significant changes in fair value from the prior quarter, significant unobservable inputs and prices used in valuation techniques, and valuation adjustments.

The results of these meetings are aggregated for presentation to the Valuation and Risk Management Committee ('VARMC') and the Audit Committee. The VARMC, which is run as a sub-committee of CSG VARMC and is comprised of Credit Suisse Group AG's Executive Board members, CEO CSS(E)L, CFO CSS(E)L, CRO CSS(E)L and the UK heads of the business and control functions meets to review and ratify valuation review conclusions, and to resolve significant valuation issues for the CSS(E)L Group. Oversight of the valuation control framework is through specific and regular reporting on valuation directly to the Credit Suisse Group AG's Executive Board through the VARMC.

One of the key components of the governance process is the segregation of duties between the Business and Product Control. The Business is responsible for measuring inventory at fair value on a daily basis, while Product Control is responsible for independently reviewing and validating those valuations on a periodic basis. The Business values the inventory using, wherever possible, observable market data which may include executed transactions, dealer quotes, or broker quotes for the same or similar instruments. Product Control validates this inventory using independently sourced data that also includes executed transactions, dealer quotes, and broker quotes.

Product Control utilises independent pricing service data as part of their review process. Independent pricing service data is analysed to ensure that it is representative of fair value including confirming that the data corresponds to executed transactions or executable broker quotes, review and assessment of contributors to ensure they are active market participants, review of statistical data and utilisation of pricing challenges. The analysis also includes understanding the sources of the pricing service data and any models or assumptions used in determining the results. The purpose of the review is to judge the quality and reliability of the data for fair value measurement purposes and its appropriate level of usage within the Product Control independent valuation review.

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.

The CSS(E)L Group performs a sensitivity analysis of its significant level 3 financial instruments. This sensitivity analysis estimates a fair value range by changing the related significant unobservable inputs value. Where a model-based technique is used to determine the fair value of the level 3 financial instrument, an alternative input value is utilised to derive an estimated fair value range. Where a price-based technique is used to determine the fair value of the level 3 financial instrument, Business professional judgement is used to estimate a fair value range.

The following information on the valuation techniques and significant unobservable inputs of the various financial instruments, and the sensitivity of fair value measurements to changes in significant unobservable inputs, should be read in conjunction with the table 'Quantitative disclosure of valuation techniques'.

Securities purchased/sold under resale/repurchase agreements and securities borrowing/lending transactions

Securities purchased under resale agreements and securities sold under repurchase agreements are measured at fair value using discounted cash flow analysis. Future cash flows are discounted using observable market interest rate repurchase/resale curves for the applicable maturity and underlying collateral of the instruments. As such, the significant majority of both securities purchased under resale agreements and securities sold under repurchase agreements are included in level 2 of the fair value hierarchy. Structured resale and repurchase agreements include embedded derivatives, which are measured using the same techniques as described below for stand-alone derivative contracts held for trading purposes or used in hedge accounting relationships. If the value of the embedded derivative is determined using significant unobservable inputs, those structured resale and repurchase agreements are classified within level 3 of the fair value hierarchy. The significant unobservable inputs for those classified as level 3 are funding spread and general collateral rate.

Securities purchased under resale agreements are usually fully collateralised or over collateralised by government securities, money market instruments, corporate bonds, or other debt instruments. In the event of counterparty default, the collateral service agreement provides the CSS(E)L Group with the right to liquidate the collateral held.

Debt securities

Foreign governments and corporates

Government debt securities typically have quoted prices in active markets and are categorised as level 1 instruments. For debt

securities for which market prices are not available, valuations are based on yields reflecting credit rating, historical performance, delinquencies, loss severity, the maturity of the security, recent transactions in the market or other modelling techniques, which may involve judgement. Those securities where the price or model inputs are observable in the market are categorised as level 2 instruments, while those securities where prices are not observable and significant model inputs are unobservable are categorised as level 3 of the fair value hierarchy.

Corporate bonds are priced to reflect current market levels either through recent market transactions or broker or dealer quotes. Where a market price for the particular security is not directly available, valuations are obtained based on yields reflected by other instruments in the specific or similar entity's capital structure and adjusting for differences in seniority and maturity, benchmarking to a comparable security where market data is available (taking into consideration differences in credit, liquidity and maturity), or through the application of cash flow modelling techniques utilising observable inputs, such as current interest rate curves and observable CDS spreads. The significant unobservable input is price. For securities using market comparable price, the differentiation between level 2 and level 3 is based upon the relative significance of any yield adjustments as well as the accuracy of the comparison characteristics (i.e., the observable comparable security may be in the same country but a different industry and may have a different seniority level – the lower the comparability the more likely the security will be level 3).

CMBS, RMBS and CDO securities

Fair values of RMBS, CMBS and CDOs may be available through quoted prices, which are often based on the prices at which similarly structured and collateralised securities trade between dealers and to and from customers. Fair values of RMBS, CMBS and CDOs for which there are significant unobservable inputs are valued using capitalisation rate. Price may not be observable for fair value measurement purposes for many reasons, such as the length of time since the last executed transaction for the related security, use of a price from a similar instrument, or use of a price from an indicative quote. Fair values determined by market comparable price may include discounted cash flow models using the inputs prepayment rates, default rates, loss severity and discount rates. Prices from similar observable instruments are used to calculate implied inputs which are then used to value unobservable instruments using discounted cash flow. The discounted cash flow price is then compared to the unobservable prices and assessed for reasonableness.

For most structured debt securities, determination of fair value requires subjective assessment depending on liquidity, ownership concentration, and the current economic and competitive environment. Valuation is determined based on the Front Office's own assumptions about how market participants would price the asset. Collateralised bond and loan obligations are split into various structured tranches and each tranche is valued based upon its individual rating and the underlying collateral supporting the

structure. Valuation models are used to value both cash and synthetic CDOs.

Equity securities

The majority of the CSS(E)L Group's positions in equity securities are traded on public stock exchanges for which quoted prices are readily and regularly available and are therefore categorised as level 1 instruments. Level 2 and level 3 equities include, convertible bonds or equity securities with restrictions that are not traded in active markets. The significant unobservable input is price.

Derivatives

Derivatives held for trading purposes or used in hedge accounting relationships include both OTC and exchange-traded derivatives. The fair values of exchange-traded derivatives measured using observable exchange prices are included in level 1 of the fair value hierarchy. For exchange-traded derivatives where the market is not considered active, the observable exchange prices may not be considered executable at the reporting date. These derivatives are valued in the same manner as similar observable OTC derivatives and are included in level 2 of the fair value hierarchy. If the similar OTC derivative used for valuing the exchange-traded derivative is not observable, then the exchange-traded derivative is included in level 3 of the fair value hierarchy.

The fair values of OTC derivatives are determined on the basis of either industry standard models or internally developed proprietary models. Both model types use various observable and unobservable inputs in order to determine fair value. The inputs include those characteristics of the derivative that have a bearing on the economics of the instrument. The determination of the fair value of many derivatives involves only a limited degree of subjectivity because the required inputs are observable in the marketplace, while more complex derivatives may use unobservable inputs that rely on specific proprietary modelling assumptions. Where observable inputs (prices from exchanges, dealers, brokers or market consensus data providers) are not available, attempts are made to infer values from observable prices through model calibration (spot and forward rates, mean reversion, benchmark interest rate curves and volatility inputs for commonly traded option products). For inputs that cannot be derived from other sources, estimates from historical data may be made. OTC derivatives where the majority of the value is derived from market observable inputs are categorised as level 2 instruments, while those where the majority of the value is derived from unobservable inputs are categorised as level 3 of the fair value hierarchy.

The CSS(E)L Group's valuation of derivatives includes an adjustment for the cost of funding uncollateralised OTC derivatives. The impact of changes in a counterparty's credit spreads (known as credit valuation adjustments or 'CVA') is considered when measuring the fair value of assets and the impact of changes in the CSS(E)L Group's own credit spreads (known as debit valuation adjustments or 'DVA') is considered when measuring the fair value of its liabilities.

Interest rate derivatives

OTC vanilla interest rate products, such as interest rate swaps, swaptions, and caps and floors are valued by discounting the anticipated future cash flows. The future cash flows and discounting are derived from market standard yield curves and industry standard volatility inputs. Where applicable, exchange-traded prices are also used to value exchange-traded futures and options and can be used in yield curve construction. For more complex products, inputs include, but are not limited to correlation, volatility, volatility skew, prepayment rate, credit spread, basis spread and mean reversion.

Foreign exchange derivatives

Foreign exchange derivatives include vanilla products such as spot, forward and option contracts where the anticipated discounted future cash flows are determined from foreign exchange forward curves and industry standard optionality modelling techniques. Where applicable, exchange-traded prices are also used for futures and option prices. For more complex products inputs include, but are not limited to prepayment rate and correlation.

Equity and index-related derivatives

Equity derivatives include vanilla options and swaps in addition to different types of exotic options. Inputs for equity derivatives can include price, correlation, volatility, skew, buyback probability and gap risk.

Credit derivatives

Credit derivatives include index and single name CDS in addition to more complex structured credit products. Vanilla products are valued using industry standard models and inputs that are generally market observable including credit spread and recovery rate.

Complex structured credit derivatives are valued using proprietary models requiring unobservable inputs such as recovery rate, credit spread, correlation and price. These inputs are generally implied from available market observable data. Fair values determined by price may include discounted cash flow models using the inputs prepayment rate, default rate, loss severity and discount rate.

Other derivatives

Other derivatives include longevity swaps where the CSS(E)L Group enters into longevity and mortality swap transactions with institutional investors to transfer mortality risk. Generally, in a longevity swap, counterparty 'A' pays life contingent premiums to counterparty 'B' and in return receive death benefit at maturity of the underlying life. Longevity swaps are also structured to exchange fixed vs life contingent cash flows without any referenced death benefits. The longevity swaps cash flows may also be credit linked to underlying insurance carriers. Longevity swaps are valued using the discounted cash flow model and the primary unobservable input is market implied remaining life expectancy.

Non-trading financial assets mandatorily at fair value through profit or loss

Life Finance Instruments

Life finance instruments include Single Premium Immediate Annuities ('SPIA'), life settlement and premium finance

instruments. SPIAs are valued using discounted cash flow models and are purchased with an upfront payment to receive life contingent annuity income stream. Annuity streams are fixed and received until the individual matures. SPIAs annuity helps finance ongoing premium obligation on the underlying policies and also acts as mortality hedge. Life settlement and premium finance instruments are valued using proprietary models with the primary input being market implied remaining life expectancy. Life settlement policies are life insurance policies issued by insurance companies and pay a lump sum death benefit upon insured's death to beneficiaries in return for premiums paid over the life of an individual. Premium finance is where the CSS(E)L Group finances policy premiums for the insured / borrower set up as an Irrevocable Life Insurance Trust in return for receiving the majority of the insured's death benefit at maturity. The primary unobservable input for SPIAs, life settlement and premium finance instruments is market implied remaining life expectancy.

Loans

Loans include fully funded swaps, which are valued using discounted cash flow models. The primary unobservable input is market implied remaining life expectancy.

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 has been disclosed in the table 'Analysis of financial instruments by categories' above on pages 148 to 150. These instruments include: cash and due from banks, cash collateral receivables and payables and other receivables and payables 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.

Sensitivity of fair value measurements to changes in significant unobservable inputs

For level 3 assets instruments with a significant unobservable input of price, funding spread, general collateral rate and market implied remaining life expectancy (for life finance instruments), in general, an increase in the significant unobservable input would increase the fair value. For level 3 assets instruments with a significant unobservable input of market implied remaining life expectancy (for life settlement instruments and premium finance instruments), in general, an increase in the significant unobservable input would decrease the fair value.

For level 3 liabilities an increase in the related significant unobservable inputs would have the inverse impact on fair value.

Interrelationships between significant unobservable inputs

There are no material interrelationships between the significant unobservable inputs for the financial instruments. As the significant unobservable inputs move independently, generally an increase or decrease in one significant unobservable input will have no impact on the other significant unobservable inputs.

Quantitative disclosures of valuation techniques

The following tables provide the representative range of minimum and maximum values and the associated weighted average of

each significant unobservable input for level 3 assets and liabilities by the related valuation technique most significant to the related financial instrument.

Quantitative information about level 3 assets and liabilities at fair value

As at 31 December 2018

CSS(E)L Group (USD million, except as indicated)

	Fair Value	Valuation technique	Unobservable input	Minimum value	Maximum value	Weighted average ^{1,2}
Assets						
Trading financial assets mandatorily at fair value through profit or loss						
Debt securities	29					
Of which corporates	29					
Of which	26	Market comparable	Price, in %	–	102	34
Equity securities	22					
Of which	22	Vendor price	Price in actuals	–	750	32
Derivatives	1,043					
Of which equity/ index-related products	25					
Of which	23	Vendor price	Price in actuals	–	11	–
Of which other derivatives	1,018					
Of which	287	Discounted cash flow	Market implied life expectancy, in years	2	16	5
Of which	486	Discounted cash flow	Mortality Rate, in %	87	106	100
Non-trading financial assets designated at fair value through profit or loss						
Other Non-trading financial assets designated at fair value through profit or loss						
	1,129					
Of which life finance instruments	1,129					
Of which	1,126	Discounted cash flows	Market implied remaining life expectancy, in years	2	17	6
Liabilities						
Trading financial liabilities mandatorily at fair value through profit or loss						
Equity securities	3					
Of which	3	Vendor price	Price in actuals	–	3,770	–
Derivatives	749					
Of which equity/ index-related products	33					
Of which	12	Vendor price	Price in actuals	–	355	–
Of which other derivatives	716					
Of which	590	Discounted cash flows	Market implied remaining life expectancy, in years	2	19	6
Debt in Issuance	38					
Of which other debt instruments	38	Discounted cash flows	Market implied remaining life expectancy, in years	2	13	6

¹ Cash instruments are generally presented on a weighted average basis while certain derivative instruments either contain a combination of weighted averages and arithmetic means of the related inputs or are presented on the arithmetic mean basis.

² Above quantitative information about Level 3 assets and liabilities at fair value pertains to continued and discontinued operations.

As at 31 December 2017 CSS(E)L Group (USD million, except as indicated)	Fair Value	Valuation technique	Unobservable input	Minimum value	Maximum value	Weighted average ^{1,2}
Assets						
Trading financial Assets at fair value through profit or loss						
Debt securities	73					
Of which corporates	69					
Of which	38	Market comparable	Price, in %	–	105	87
Equity securities	21					
Of which	20	Vendor price	Price in actuals	–	2,080	15
Derivatives	1,088					
Of which equity/ index-related products	79					
Of which	68	Vendor price	Price in actuals		79	6
Of which other derivatives	1,007					
Of which	505	Discounted cash flows	Mortality Rate, in %	76	92	90
Of which	492	Discounted cash flows	Market implied remaining life expectancy, in years	2	17	6
Financial assets designated at fair value through profit or loss						
Other financial assets designated at fair value through profit or loss						
	1,523					
Of which life finance instruments	1,513					
Of which	1,406	Discounted cash flows	Market implied remaining life expectancy, in years	2	18	7
Of which	113	Discounted cash flows	Mortality Rate, in %	76	92	91
Financial assets available-for-sale	39					
Of which	20	Vendor price	Price, in actuals	–	2,080	35
Liabilities						
Trading financial liabilities at fair value through profit or loss						
Equity securities	19					
Of which	17	Vendor price	Price in actuals	–	154	10
Derivatives	757					
Of which equity/ index-related products	78					
Of which	78	Vendor price	Price in actuals	–	53	12
Of which other derivatives	679					
Of which	647	Discounted cash flows	Market implied remaining life expectancy, in years	2	20	6
Long-term debt	77					
Of which other debt instruments	56	Discounted cash flows	Market implied remaining life expectancy, in years	2	17	6

¹ Cash instruments are generally presented on a weighted average basis while certain derivative instruments either contain a combination of weighted averages and arithmetic means of the related inputs or are presented on the arithmetic mean basis.

² Above quantitative information about Level 3 assets and liabilities at fair value pertains to continued and discontinued operations.

Qualitative discussion of the ranges of significant unobservable inputs

The following sections provide further information about the ranges of significant unobservable inputs included in the tables above. The level of aggregation and diversity within the financial instruments disclosed in the tables above result in certain ranges of significant inputs being wide and unevenly distributed across asset and liability categories.

Market implied remaining life expectancy

The CSS(E)L Group's market implied remaining life expectancy determines an individual's mortality curve and is the primary unobservable input used on various longevity instruments including life settlements, premium finance, SPIAS and longevity

swaps. Market implied remaining life expectancy is determined based on individual's gender, age, and health status. It is calibrated to the market data when transaction data is available.

Mortality Rate

Mortality rate is the primary significant unobservable input for pension swaps. The expected present value of future cash flow of the trades depend on the mortality of individuals in the pension fund who are grouped into categories such as gender, age, pension amount, and other factors. In some cases mortality rates include a 'scaler' (also referred to as a loading or multiplier) that align mortality projections with historical experience and calibrate to exit level.

Price

Bond equivalent price is a primary significant unobservable input for bonds and equities. Where market prices are not available for an instrument, benchmarking may be utilised to identify comparable issues (same industry and similar product mixes) while adjustments are considered for differences in deal terms and performance.

Funding spread

Funding spread is the primary significant unobservable input for Structured Entities funding facilities. Synthetic funding curves which represent the assets pledged as collateral are used to value structured financing transactions. The curves provide an estimate of where secured funding can be sourced and are expressed as a basis point spread in relation to the referenced benchmark rate.

General collateral rate

General collateral rate is the primary significant unobservable input for repurchase/resale transactions involving emerging markets bonds.

Credit spread

Credit spread is the primary significant input for CDS trades. The lower end of the credit spread range typically represents shorter-dated instruments and/or those with better perceived credit risk. The higher end of the range typically comprises longer-dated financial instruments or those referencing non-performing, distressed or impaired reference credits. Similarly, the spread between the reference credit and an index can vary significantly based on the risk of the instrument.

Sensitivity of fair values to reasonably possible alternative assumptions

The fair value of certain financial instruments recognised in the consolidated financial statements is dependent in part or fully upon unobservable parameters which may include market inputs, prices or other data.

The following table summarises the sensitivity of these financial instruments to reasonable changes in the assumptions underlying these parameters:

CSS(E)L Group and Company	As at 31 December 2018		As at 31 December 2017	
	Favourable changes	Un-favourable changes	Favourable changes	Un-favourable changes
Impact on net income/(loss)(USD million)				
Life insurance products	150	(163)	162	(189)
Derivative assets and liabilities	8	(8)	11	(11)
Debt and equity securities	10	(5)	12	(5)
Total	168	(176)	185	(205)

When the fair value of an instrument has multiple unobservable inputs, there is assumed to be no correlation between those inputs, as such the total sensitivity reflected in the table may be larger than if correlation had been included in the analysis. The analysis also ignores any correlation between the different categories of financial instruments listed in the table.

Life insurance products, both physical and synthetic, are sensitive to mortality assumption. Sensitivity analysis is carried out by stressing market life expectancy of each underlying product in months between 2 to 9 months.

Debt and equity securities include corporate bonds. The parameter subjected to sensitivity for corporate debt is price. Corporate debt positions are generally subjected to movements up and down of 3% to 4% of the price of the security.

The sensitivities applied to the unobservable parameters are in all cases dependent upon management judgement and derived from multiple sources including historical and statistical information as well as analysing the range of bids and offers on observable market information as a proxy for the unobservable portion of the market.

Recognition of trade date profit/loss

If there are significant unobservable inputs used in the valuation technique, the financial instrument is recognised at the transaction price and any profit implied from the valuation technique at trade date is deferred over the life of the contract or until the fair value is expected to become observable.

The following table sets out the aggregate difference yet to be recognised in Statement of Income at the beginning of the year and end of the year with a reconciliation of the changes of the balance during the year.

CSS(E)L Group and Company	2018	2017
Deferred trade date profit and loss (USD million)		
Balance at 1 January	63	80
Reduction due to passage of time	(14)	(17)
Balance at 31 December	49	63

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 consolidated Statements

of Financial Position. IFRS also requires the disclosure of the fair values of these financial instruments within the fair value hierarchy.

As at 31 December 2018 CSS(E)L Group	Level 1	Level 2	Level 3	Impact of Netting	Total at fair value
Assets (USD million)					
Cash and due from banks	2,615	–	–	–	2,615
Interest-bearing deposits with banks	–	7,421	–	–	7,421
Securities purchased under resale agreements and securities borrowing transactions	–	16,290	–	(18)	16,272
Other assets	–	10,064	–	–	10,064
Assets held for sale	–	1,347	–	–	1,347
Total fair value of financial assets	2,615	35,122	–	(18)	37,719
Liabilities (USD million)					
Deposits	262	–	–	–	262
Securities sold under repurchase agreements and securities lending transactions	–	6,063	–	(18)	6,045
Borrowings	–	2,832	–	–	2,832
Debt in issuance	–	13,294	–	–	13,294
Other financial liabilities	–	14,612	–	–	14,612
Liabilities held for sale	–	3,921	–	–	3,921
Total fair value of financial liabilities	262	40,722	–	(18)	40,966

As at 31 December 2018
Company

	Level 1	Level 2	Level 3	Impact of Netting	Total at fair value
Assets (USD million)					
Cash and due from banks	2,604	–	–	–	2,604
Interest-bearing deposits with banks	–	7,421	–	–	7,421
Securities purchased under resale agreements and securities borrowing transactions	–	16,290	–	(18)	16,272
Other assets	–	10,049	–	–	10,049
Assets held for sale	–	1,347	–	–	1,347
Total fair value of financial assets	2,604	35,107	–	(18)	37,693
Liabilities (USD million)					
Deposits	262	–	–	–	262
Securities sold under repurchase agreements and securities lending transactions	–	6,063	–	(18)	6,045
Borrowings	–	2,832	–	–	2,832
Debt in issuance	–	13,294	–	–	13,294
Other financial liabilities	–	14,607	–	–	14,607
Liabilities held for sale	–	3,921	–	–	3,921
Total fair value of financial liabilities	262	40,717	–	(18)	40,961

As at 31 December 2017
CSS(E)L Group

	Level 1	Level 2	Level 3	Impact of Netting	Total at fair value
Assets (USD million)					
Cash and due from banks	2,662	–	–	–	2,662
Interest-bearing deposits with banks	–	20,271	–	–	20,271
Securities purchased under resale agreements and securities borrowing transactions	–	23,323	–	(598)	22,725
Other financial assets	–	8,049	–	–	8,049
Assets held for sale	–	15,127	–	–	15,127
Total fair value of financial assets	2,662	66,770	–	(598)	68,834
Liabilities (USD million)					
Deposits	62	–	–	–	62
Securities sold under repurchase agreements and securities lending transactions	–	14,866	–	(598)	14,268
Borrowings	–	5,512	–	–	5,512
Debt in issuance	–	21,695	–	–	21,695
Other financial liabilities	–	17,420	–	–	17,420
Liabilities held for sale	–	9,135	–	–	9,135
Total fair value of financial liabilities	62	68,628	–	(598)	68,092

As at 31 December 2017 Company	Level 1	Level 2	Level 3	Impact of Netting	Total at fair value
Assets (USD million)					
Cash and due from banks	2,640	–	–	–	2,640
Interest-bearing deposits with banks	–	20,272	–	–	20,272
Securities purchased under resale agreements and securities borrowing transactions	–	23,323	–	(598)	22,725
Other financial assets	–	8,061	–	–	8,061
Assets held for sale	–	15,127	–	–	15,127
Total fair value of financial assets	2,640	66,783	–	(598)	68,825
Liabilities (USD million)					
Deposits	62	–	–	–	62
Securities sold under repurchase agreements and securities lending transactions	–	14,866	–	(598)	14,268
Borrowings	–	5,512	–	–	5,512
Debt in issuance	–	21,695	–	–	21,695
Other financial liabilities	–	17,406	–	–	17,406
Liabilities held for sale	–	9,135	–	–	9,135
Total fair value of financial liabilities	62	68,614	–	(598)	68,078

40 Assets Pledged or Assigned

The following table sets forth details of assets pledged or assigned:

CSS(E)L Group and Company	2018	2017
Assets pledged or assigned (USD million)		
Trading financial assets at fair value through profit or loss	7,685	14,247
Collateral received		
Fair value of collateral received with the right to resell or repledge	126,243	155,130
Of which sold or repledged	99,846	126,291

Assets pledged or assigned represents the Statements of Financial Position of trading assets at fair value through profit or loss which have been pledged as collateral under securities sold under repurchase agreements, securities lending transactions and derivative instruments. Refer to Note 16 – Trading Financial Assets and Liabilities Mandatorily at Fair Value Through Profit or Loss for the amount of securities transferred which are encumbered.

As at 31 December 2018 and 2017, collateral was received in connection with resale agreements, securities borrowings and loans, derivative transactions and margined broker loans. As at these dates, a substantial portion of the collateral received by the CSS(E)L Group had been sold or repledged in connection with repurchase agreements, securities sold not yet purchased, securities lent, pledges to clearing organisations, segregation

requirements under securities laws and regulations, derivative transactions, and bank loans.

These transactions were generally conducted under terms that are usual and customary for standard securitised lending activities and the other transactions described. The CSS(E)L Group, as the secured party, has the right to sell or repledge such collateral, subject to the CSS(E)L Group returning equivalent securities upon completion of the transaction.

The CSS(E)L Group enters into agreements with counterparties where collateral or security interests in positions which the CSS(E)L Group holds, has been provided. This includes situations where the CSS(E)L Group has registered charges to certain counterparties over the CSS(E)L Group's assets in connection with its normal operating activities.

41 Derecognition of Financial Assets

In the normal course of business, the CSS(E)L Group enters into transactions where it transfers previously recognised financial assets, such as debt securities, equity securities and other financial instruments. The CSS(E)L Group's accounting policy regarding derecognition of such assets under IAS 39 is described in Note 2 – Significant Accounting Policies.

Transferred Financial Assets that are not derecognised in their entirety

Certain transactions may include provisions that prevent derecognition of the transferred financial asset and the transfers are accounted for as secured financing transactions. Repurchase agreements, securities lending agreements and total return

swaps, in which the CSS(E)L Group retains substantially all of the associated credit, market, interest rate and foreign exchange risks and rewards associated with the assets, represent the most common examples of such transactions. Where the transfer of an asset does not meet derecognition, it remains on the CSS(E)L Group's statement of financial position with a corresponding liability established to represent an obligation to the counterparty. As part of the CSS(E)L Group's repurchase agreements and securities lending transactions, there is an obligation to return equivalent securities at the end of the transaction.

The following table provides details of financial assets which have been sold or otherwise transferred, but which do not qualify for derecognition, together with their associated liabilities.

Carrying amount of transferred assets not derecognised and associated liabilities

CSS(E)L Group and Company (USD million)	2018		2017	
	Carrying amount of assets	Carrying amount of associated liabilities	Carrying amount of assets	Carrying amount of associated liabilities
Financial assets not derecognised due to the following transactions				
Repurchase agreements and Securities lending agreements	7,685	7,685	14,247	14,247

The CSS(E)L Group also participates in securities lending agreements where the counterparty provides security as collateral. The carrying amount of the assets not derecognised in such transactions is equal to USD 1,739 million (2017: USD 2,817 million).

Where the CSS(E)L Group sells the contractual rights to the cash flows of the securities included above, it does not have the ability to use the transferred assets during the term of the arrangement. The counterparties to the associated liabilities included above, have full recourse to the CSS(E)L Group.

Assets not derecognised are included in Note 16 – Trading Financial Assets and Liabilities Mandatorily at Fair Value Through Profit or Loss and corresponding liabilities in Note 15 – Securities Borrowed, Lent and Purchased/Sold under Resale/Repurchase Agreements and Note 17 – Non-Trading Financial Assets Mandatorily at Fair Value through Profit or Loss (2017: Note 18 – Financial Assets and Liabilities Designated at Fair Value Through Profit or Loss).

42 Financial Risk Management

Risks Detail

i) Market risk

Overview

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 parameters, such as market volatilities and correlations. The Company defines its market risk as potential changes in the fair values of financial instruments in response to market movements. A typical transaction will be exposed to a number of different market risks.

The Company has policies and processes in place to ensure that market risk is captured, accurately modelled and reported, and effectively managed. Trading and non-trading portfolios are managed at various organisational levels, from the overall risk positions at the Company level down to specific portfolios. The Company uses market risk measurement and management methods in line with regulatory and industry standards. These include general tools capable of calculating comparable risk metrics across the Bank's many activities and focused tools that can specifically model the unique characteristics of certain instruments or portfolios. The tools are used for internal market risk management, internal market risk reporting and external disclosure purposes. The principal measurement methodologies are Value-at-Risk ('VaR') and scenario analysis. The risk management techniques and policies are regularly reviewed to ensure they remain appropriate.

Value-at-Risk

VaR measures the potential loss in terms of fair value of financial instruments due to adverse market movements over a defined time horizon at a specified confidence level. VaR is applicable for market risk exposures with price histories. Positions can be aggregated in several ways, across risk factors, products and businesses. For example, interest rate risk includes risk arising from money market and swap transactions, bonds, and interest rate, foreign exchange, equity and commodity options. The use of VaR allows the comparison of risk across different asset classes, businesses and divisions, and also provides a means of aggregating and netting a variety of positions within a portfolio to reflect actual correlations and offsets between different assets.

Historical financial market rates, prices and other relevant parameters serve as a basis for the statistical VaR model underlying the potential loss estimation. The Company uses a ten-day holding period and a confidence level of 99% to model the risk in its trading portfolios. These assumptions are compliant with the standards published by the Basel Committee on Banking Supervision ('BCBS').

The Company uses a historical simulation model for the majority of the risk types and businesses within its trading portfolios. Where insufficient data is available for such an approach, an

'extreme-move' methodology is used. The model is based on the profit or loss distribution resulting from historical changes in market rates, prices and other relevant parameters applied to evaluate the portfolio. This methodology also avoids any explicit assumptions on the correlation between risk factors.

The VaR model uses a two-year historical dataset to compute VaR. To ensure that VaR responds appropriately in times of market stress, the model uses a time-weighting scheme in which more recent events are assigned a higher weight in the calculation. This results in a more responsive VaR model, as the impact of changes in the overall market volatility is reflected promptly in the VaR model output.

The Company has approval from the PRA to use its regulatory VaR model in the calculation of the trading book market risk capital requirements.

The VaR model uses assumptions and estimates that the Company believes are reasonable, but changes to assumptions or estimates could result in a different VaR measure. The main assumptions and limitations of VaR as a risk measure are:

- VaR relies on historical data to estimate future changes in market conditions, which may not capture all potential future outcomes, particularly where there are significant changes in market conditions and correlations across asset classes.
- VaR provides an estimate of losses at a 99% confidence level, which means that it does not provide any information on the size of losses that could occur beyond that threshold.
- VaR is based on a ten-day holding period. This assumes that risks can be either sold or hedged over that period, which may not be possible for all types of exposure, particularly during periods of market illiquidity or turbulence.
- VaR is calculated using positions held at the end of each business day and does not include intra-day changes in exposures.

Scenario analysis

Stress testing complements other risk measures by capturing the Company's exposure to unlikely but plausible events, which can be expressed through a range of significant moves across multiple financial markets. The majority of scenario analysis calculations performed are specifically tailored toward the risk profile of particular businesses, and limits may be established if they are considered the most appropriate control. In addition, to identify areas of risk concentration and potential vulnerability to stress events at CSS(E)L Group level, a set of scenarios which are consistently applied across all businesses and assess the impact of significant, simultaneous movements across a broad range of markets and asset classes.

Stress testing is a fundamental element of the Company's risk control framework, stress testing results are monitored against limits, used in risk appetite discussions and strategic business planning, and support the Company's internal capital adequacy assessment. Stress testing is conducted on a regular basis and the results, trend

information and supporting analysis are reported to the Board, senior management and shared and discussed with the business lines.

Scenarios can be defined with reference to historic events or based on forward looking, hypothetical events that could impact the Company's positions, capital, or profitability. The scenarios used within the Company are reviewed at the individual risk committee level as well as by a dedicated scenario design forum. It is expected that the scenarios used within the Company are redefined as required by changes in market conditions and as business strategies evolve.

Trading portfolios

Risk measurement and management

Market risk arises in the Company's trading portfolios primarily through the trading activities within the bank.

For the purposes of this disclosure, VaR is used to quantify market risk in the trading portfolio. This classification of assets as trading is based on the trading intent and for the purpose of

analysing the Company's market risk exposure, not for financial statement purposes.

The Company is active in the principal global trading markets, using the majority of common trading and hedging products, including derivatives such as swaps, futures, options and structured products (some of which are customised transactions using combinations of derivatives and executed to meet specific client or proprietary needs). As a result of the Company's broad participation in products and markets, trading strategies are correspondingly diverse and exposures are generally spread across a range of risk factors and locations.

Development of trading portfolio risks

The following table shows the trading-related market risk exposure for CSS(E)L Group, as measured by regulatory ten-day, 99% VaR. VaR estimates are computed separately for each risk type and for the whole portfolio using the historical simulation methodology. The diversification benefit reflects the net difference between the sum of the 99th percentile loss for each individual risk type and for the total portfolio.

Ten-day, 99% VaR – trading portfolios

in / end of period	Interest rate and credit spread	Foreign exchange	Commodity	Equity	Diversification benefit ¹	Total
2018 (USD million)						
Average	13	1	–	6	(5)	15
Minimum	8	–	–	3	– ²	9
Maximum	21	2	1	13	– ²	23
End of period	16	2	–	4	(5)	17
2017 (USD million)						
Average	11	1	–	8	(5)	15
Minimum	6	1	–	5	– ²	11
Maximum	15	3	1	17	– ²	25
End of period	14	1	–	5	(4)	16

¹ VaR estimates are calculated separately for each risk type and for the whole portfolio using the historical simulation methodology.

Diversification benefit reflects the net difference between the sum of the 99% percentile loss.

² As the minimum and maximum occur on different days for different risk types, it is not meaningful to calculate a portfolio diversification benefit.

VaR results

The CSS(E)L Group's ten-day, 99% regulatory VaR as of 31 December 2018 increased by 4% to USD 17 million compared to 31 December 2017 (USD 16 million).

Banking portfolios

Risk measurement and management

The market risks associated with the non-trading portfolios are measured, monitored and limited using several tools, including scenario analysis, sensitivity analysis and VaR. For the purpose of this disclosure, the aggregated market risks associated with the Company's non-trading portfolios are measured using sensitivity analysis. The sensitivity analysis for the non-trading activities measures the amount of potential change in economic value resulting from specified hypothetical shocks to market factors. It is not a measure of the potential impact on reported earnings in

the current period, since the non-trading activities generally are not marked to market through earnings. Foreign exchange translation risk is not included in this analysis.

Development of non-trading portfolio risks

Interest rate risk on non-trading positions is shown using sensitivity analysis that estimates the potential change in value resulting from defined changes in interest rate yield curves. The impact of a one-basis-point parallel move in yield curves on the fair value of interest rate-sensitive non-trading book positions would have amounted to USD -0.06 million as at 31 December 2018 compared to USD -0.1 million as of 31 December 2017. Non-trading interest rate risk is assessed using other measures including the potential value change resulting from a significant change in yield curves.

As of 31 December 2018 the fair value impacts of a 200-basis-point move in yield curves (no flooring at zero) were:

- A fair value loss of USD 21 million (2017 loss of USD 28 million) for a +200bps move.
- A fair value gain of USD 3 million (2017 gain of USD 12 million) for a -200bps move.

ii) Liquidity Risk

Liquidity risk is the risk that a company is unable to fund assets and meet obligations as they fall due in times of stress, whether caused by market events and/or firm-specific issues.

CS group wide management of liquidity risk

The liquidity and funding strategy of Credit Suisse ('CS') is approved by the Capital Allocation & Risk Management Committee ('CARMC') and overseen by the Board of Directors ('Board').

CARMC committee includes the CEOs of the Group and the divisions, the Chief Financial Officer, the CRO, the Chief Compliance and Regulatory Affairs Officer and the Treasurer, and it is responsible for review of the capital position, balance sheet development, current and prospective funding, interest rate risk and foreign exchange exposure, as well as defining and monitoring the adherence to internal risk limits. CARMC also regularly reviews the methodology and assumptions of the liquidity risk management framework and determines the liquidity horizon to be maintained.

The Board defines CS's risk tolerance, including liquidity risk, and set parameters for the balance sheet and funding usage by businesses. The Board is responsible for defining overall risk tolerance in the form of a risk appetite statement.

The implementation and execution of the liquidity and funding strategy is managed by Treasury. Treasury ensures adherence to the CS funding policy and the efficient coordination of secured funding desks. This approach enhances CS's ability to manage potential liquidity and funding risks and to promptly adjust liquidity and funding levels to meet stress situations.

The liquidity and funding profile is reported regularly to CARMC and the Board and it reflects CS strategy and risk appetite and is driven by business activity levels and the overall operating environment.

The liquidity and funding policy is designed to ensure that CS assets are funded and CS liquidity obligations are met as they fall due in times of stress, whether caused by market events and/or CS specific issues. This is achieved through a conservative asset/liability management strategy aimed at maintaining long-term funding, including stable deposits, in excess of illiquid assets.

To address short-term liquidity stress, a liquidity pool comprising of cash held at central banks and high-quality liquid assets

('HQLA') is maintained and managed by Treasury for the purpose of covering unexpected outflows in the event of severe market and idiosyncratic stress. CS liquidity risk parameters reflect various liquidity stress assumptions calibrated as such that in the event CS is unable to access unsecured funding, CS expects to have sufficient liquidity to sustain operations for a period of time in excess of the minimum limit. This includes potential currency mismatches, which are monitored and subject to limits, particularly in the significant currencies of euro, Japanese yen, pound sterling, Swiss franc and US dollar.

CS uses the internal liquidity Barometer to manage its liquidity to internal targets and as a basis to model both CS-specific and market-wide stress scenarios and their impact on the liquidity and funding over different time horizons. Other functionalities include the ability to manage entity-specific liquidity, and low point and currency controls. The internal Barometer framework also supports the management of the funding structure.

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 as a response, including a detailed communication plan for creditors, investors and customers.

On the regulatory front, in 2010, the Basel Committee on Banking Supervision ('BCBS') issued the Basel III international framework for liquidity risk measurement, standards and monitoring. The Basel III framework includes a liquidity coverage ratio ('LCR') and a net stable funding ratio ('NSFR').

The LCR, which was phased in from January 1, 2015 through January 1, 2019, addresses liquidity risk over a 30-day period. The LCR aims to ensure that banks have unencumbered high-quality liquid assets ('HQLA') available to meet short-term liquidity needs under a severe stress scenario. The LCR is comprised of two components, the value of HQLA in stressed conditions and the total net cash outflows calculated according to specified scenario parameters. Under the BCBS requirements, the ratio of liquid assets over net cash outflows was subject to an initial minimum requirement of 60% as of January 1, 2015, which was increased by 10% per year and is currently at 100% since January 1, 2019.

The NSFR establishes criteria for a minimum amount of stable funding based on the liquidity of a bank's on- and off-balance sheet activities over a one-year horizon. The NSFR is a complementary measure to the LCR and is structured to ensure that illiquid assets are funded with an appropriate amount of stable long-term funds. The NSFR is defined as the ratio of available stable funding over the amount of required stable funding and (once implemented by local regulators), should always be at least 100%.

It should be noted that local regulators are free to interpret the BCBS proposals and have implemented various aspects differently including timescales for implementation of the LCR and NSFR.

Legal entity management of liquidity risk

The legal entity internal liquidity risk management framework is aligned with the group-wide approach but also incorporates local regulatory compliance requirements. Such compliance requirements are measured as part of the Prudential Regulation Authority's ('PRA') Individual Liquidity Guidance ('ILG') which results in CSS(E)L holding term funding and a local liquid asset buffer of qualifying securities.

Following global regulatory developments, the European Banking Authority ('EBA') has published its version of the LCR and NSFR as part of the implementation guidance for Basel III. Under CRDIV guidelines, the LCR was initially introduced with a minimum requirement of 80% on October 1, 2015 with an increase to 90% from January 1, 2017 and full compliance by January 1, 2018 (one year prior to BCBS guidelines). The NSFR was expected to be introduced on January 1, 2018 in-line with the BCBS proposal, however in November 2016 the European Commission confirmed that it will not apply at a level of 100% until two years after the date of entry in to force of the proposed regulation. The date of entry into force is not yet known.

In the context of legal entity liquidity management, the Board is responsible for setting the liquidity risk appetite. Some of key characteristics determining the liquidity risk management approach in CSS(E)L include, but are not limited to:

- Board approved legal entity risk appetite;
- Compliance with local regulatory requirements;
- Holding a liquid asset portfolio composed of highly liquid unencumbered assets; and
- The liquidity value of assets, liabilities and the calibration of contingent liabilities being aligned with the CS global liquidity risk methodologies.

CSS(E)L has implemented a liquidity risk management framework including legal entity governance, systems and controls and frequent management information to measure, monitor and manage the liquidity risk.

The legal entity risk appetite and assumptions underlying relevant stress tests, which form part of CSS(E)L's liquidity risk management framework, are reviewed by Liquidity Risk and Treasury and ultimately approved by the Board on at least an annual basis or as market conditions dictate.

The authority to set more granular limits is delegated by the Board to the CSS(E)L's ExCo which has appointed the CSS(E)L CRO as the Accountable Executive; operating limits are approved through CSS(E)L Risk Management Committee ('RMC').

Treasury is responsible for maintaining sufficient HQLA collateral to meet regulatory and internal stress requirements. Treasury is also responsible for maintaining a CFP that details specific dealing strategies, actions and responsibilities required depending upon severity of the crisis. 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, daylight collateral requirements and communication strategies.

Incremental to CSS(E)L's unsecured funding sources from CS, CSS(E)L has the ability to access secured funding markets via repurchase and stock lending agreements. These funding streams provide diversification to the funding profile of the entity. The following table sets out details of the remaining contractual maturity of all financial liabilities:

CSS(E)L Group	On Demand	Current			Noncurrent		Total	Total
		Due within 3 months	Between 3 and 12 months	Total	Between 1 and 5 years	Due after 5 years		
2018 Contractual maturity of Financial Liabilities (USD million)								
Deposits	262	–	–	262	–	–	–	262
Securities sold under repurchase agreements and securities lending transactions	6,039	–	6	6,045	–	–	–	6,045
Trading financial liabilities at fair value through profit or loss	17,841	–	–	17,841	–	–	–	17,841
Financial liabilities designated at fair value through profit or loss	24,474	4,596	226	29,296	–	–	–	29,296
Borrowings	–	540	2,292	2,832	–	–	–	2,832
Other liabilities	10,528	–	4,087	14,615	–	–	–	14,615
Debt in issuance	–	76	228	304	11,166	2,570	13,736	14,040
Liabilities held for sale	4,056	–	–	4,056	–	–	–	4,056
Total financial liabilities	63,200	5,212	6,839	75,251	11,166	2,570	13,736	88,987

2017 Contractual maturity of Financial Liabilities (USD million)								
Deposits	62	–	–	62	–	–	–	62
Securities sold under repurchase agreements and securities lending transactions	10,033	–	4,234	14,267	1	–	1	14,268
Trading financial liabilities at fair value through profit or loss	12,616	–	–	12,616	–	–	–	12,616
Financial liabilities designated at fair value through profit or loss	20,246	7,750	298	28,294	123	39	162	28,456
Borrowings	–	1,438	4,074	5,512	–	–	–	5,512
Other liabilities	11,420	–	6,000	17,420	–	–	–	17,420
Debt in issuance	–	68	203	271	20,081	2,503	22,584	22,855
Liabilities held for sale	14,614	–	1,270	15,884	–	–	–	15,884
Total financial liabilities	68,991	9,256	16,079	94,326	20,205	2,542	22,747	117,073

Company	On Demand	Current			Noncurrent		Total	Total
		Due within 3 months	Between 3 and 12 months	Total	Between 1 and 5 years	Due after 5 years		
2018 Contractual maturity of Financial Liabilities (USD million)								
Deposits	262	–	–	262	–	–	–	262
Securities sold under repurchase agreements and securities lending transactions	6,039	–	6	6,045	–	–	–	6,045
Trading financial liabilities at fair value through profit or loss	17,828	–	–	17,828	–	–	–	17,828
Financial liabilities designated at fair value through profit or loss	24,463	4,596	218	29,277	–	–	–	29,277
Borrowings	–	540	2,292	2,832	–	–	–	2,832
Other liabilities	10,523	–	4,087	14,610	–	–	–	14,610
Debt in issuance	–	76	228	304	11,166	2,570	13,736	14,040
Liabilities held for sale	4,056	–	–	4,056	–	–	–	4,056
Total financial liabilities	63,171	5,212	6,831	75,214	11,166	2,570	13,736	88,950

2017 Contractual maturity of Financial Liabilities (USD million)								
Deposits	62	–	–	62	–	–	–	62
Securities sold under repurchase agreements and securities lending transactions	10,033	–	4,234	14,267	1	–	1	14,268
Trading financial liabilities at fair value through profit or loss	12,587	–	–	12,587	–	–	–	12,587
Financial liabilities designated at fair value through profit or loss	20,244	7,750	298	28,292	123	31	154	28,446
Borrowings	–	1,438	4,074	5,512	–	–	–	5,512
Other liabilities	11,406	–	6,000	17,406	–	–	–	17,406
Debt in issuance	–	68	203	271	20,081	2,503	22,584	22,855
Liabilities held for sale	14,614	–	1,270	15,884	–	–	–	15,884
Total financial liabilities	68,946	9,256	16,079	94,281	20,205	2,534	22,739	117,020

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

For instruments with perpetual features (i.e. no maturity dates), the projected coupons have been excluded. Callable deposits, open ended positions and overnight funding will be recorded at their present value in an 'on demand' categorisation. This classification will be based on the underlying legal and contractual ability of the counterparty or the Company to put or call the positions at short notice.

iii) Currency Risk

The Company takes on exposure to the effects of fluctuations in the prevailing foreign currency exchange rates on its financial position and cash flows.

The Company has approval to manage its own trading profit and loss related foreign exchange risk through a formal trading mandate and has defined risk limits using the VaR methodology. Its currency exposure within the non-trading portfolios is managed through the CS group levelling process as set out in the Corporate Foreign Exchange Policy. Both these methodologies are discussed in more detail in section i) Market Risk, of this note.

iv) Credit Risk

Credit risk is the possibility of a loss being incurred as the result of a borrower or counterparty failing to meet its financial obligations or as a result of deterioration in the credit quality of the borrower or counterparty. In the event of a customer default a company generally incurs a loss equal to the amount owed by the debtor, less any recoveries from foreclosure, liquidation of collateral or the restructuring of the debtor company. A change in the credit quality of the counterparty has an impact on the valuation of assets eligible for fair value measurement, with valuation changes recorded in the Consolidated Statement of Income. Credit risk in CSS(E)L Group is managed by the CSS(E)L Credit Risk Management ('CSS(E)L CRM') department, which is headed by the CSS(E)L Chief Credit Officer ('CSS(E)L CCO'), who in turn reports to the Company Chief Risk Officer ('CRO'). CSS(E)L Credit Risk Management ('CRM') is a part of the wider CRM department, which is an independent function 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. The head of CRM reports to the CRO of CS group. All credit limits in CSS(E)L Group are subject to approval by CSS(E)L CRM.

Credit risk management approach

Effective credit risk management is a structured process to assess, quantify, measure, monitor and manage risk on a consistent basis. This requires careful consideration of proposed extensions of credit, the setting of specific limits, monitoring during the

life of the exposure, active use of credit mitigation tools and a disciplined approach to recognising credit impairment.

Credit limits are used to manage concentration to individual counterparties. A system of limits is also established to address concentration risk in the portfolio, including country limits, industry limits and limits for certain products. In addition, credit risk concentration is regularly supervised by credit and risk management committees, taking current market conditions and trend analysis into consideration. 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. Regularly updated watch lists and review meetings are used for the identification of counterparties where adverse changes in creditworthiness could occur.

Counterparty and transaction rating

The CSS(E)L Group employs a set of credit ratings for the purpose of internally rating counterparties to which it is exposed to credit risk as the contractual party. Credit ratings are intended to reflect the risk of default of each counterparty. Ratings are assigned based on internally developed rating models and processes, which are subject to governance and internally independent validation procedures.

The CSS(E)L Group's internal ratings may differ from counterparties external ratings where present. Policy requires the review of internal ratings at least annually. For the calculation of internal risk estimates and Risk Weighted Assets ('RWAs'), a probability of default ('PD') is assigned to each facility, with the PD determined by the internal credit rating. Internal ratings are based on the analysis and evaluation of both quantitative and qualitative factors. The specific factors analysed are dependent on the type of counterparty. The analysis emphasises a forward looking approach, concentrating on economic trends and financial fundamentals. Analysts make use of peer analysis, industry comparisons, external ratings and research, other quantitative tools and the judgement of credit experts. The PD for each rating is calibrated based on historic default experience, using external data from Standard & Poor's, and back-tested to ensure consistency with internal experience.

The CSS(E)L Group assigns an estimate of expected loss in the event of a counterparty default 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. CSS(E)L Group uses credit risk estimates consistently for the purposes of approval, establishment and monitoring of credit limits and credit portfolio management, credit policy, management reporting and allocation and certain financial accounting purposes. This approach also allows us to price transactions involving credit risk more accurately, based on risk/return estimates. CSS(E)L Group

has been granted permission by the PRA to use internal credit rating models under the CRD4 A-Internal Rating Based ('A-IRB') approach for the majority of credit exposures in CSS(E)L Group. Exposures which are not covered by A-IRB treatment are subject to the standardised approach.

Credit Risk Overview

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

Maximum exposure to credit risk

The following table presents the maximum exposure to credit risk of 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 balance sheet the maximum exposure to credit risk equals their carrying amount as at 31 December 2018. For financial guarantees granted and other credit-related contingencies the maximum exposure to credit risk is the maximum amount that CSS(E)L Group 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.

Maximum exposure to credit risk:

	Group			Company		
	Gross	Collateral	Net	Gross	Collateral	Net
2018 Maximum exposure to credit risk (USD million)¹						
Trading financial assets mandatorily at fair value through profit or loss						
Debt securities	1,865	–	1,865	1,865	–	1,865
Derivative trading positions	5,425	5,143	282	5,431	5,143	288
Non-trading financial assets mandatorily at fair value through profit or loss						
Securities purchased under resale agreements and securities borrowing transactions	36,405	36,196	209	36,405	36,196	209
Other	1,132	–	1,132	1,111	–	1,111
Maximum exposure to credit risk – total assets	44,827	41,339	3,488	44,812	41,339	3,473

¹ Above table includes both continued and discontinued operations.

The following table sets out information about the credit quality of financial assets measured at amortised cost. Unless specifically indicated, for financial assets, the amounts in the table represent

gross carrying amounts. For loan commitments and financial guarantee contracts, the amounts in the table represent the amounts committed or guaranteed, respectively.

Cash and Due from banks credit risk exposures by rating grades

CSS(E)L Group (USD million)	2018				Total
	12-month ECL (Stage 1)	Lifetime ECL not credit-impaired (Stage 2)	Lifetime ECL credit-impaired (Stage 3)	Purchased credit-impaired	
AAA	–	–	–	–	–
AA+ to AA-	389 ¹	–	–	–	389
A+ to A-	2,111	–	–	–	2,111
BBB+ to BBB-	70	–	–	–	70
BB+ to BB-	27	–	–	–	27
B+ and below	18	–	–	–	18
Loss allowance	–	–	–	–	–
Carrying amount	2,615	–	–	–	2,615

¹ The above table applies to Company with the exception of rating grade AA+ to AA- for which the 12-month ECL (Stage 1) balance is USD 378 million.

Interest bearing deposits with Bank credit risk exposures by rating grades

					2018
CSS(E)L Group and Company (USD million)	12-month ECL (Stage 1)	Lifetime ECL not credit-impaired (Stage 2)	Lifetime ECL credit-impaired (Stage 3)	Purchased credit-impaired	Total
AAA	-	-	-	-	-
AA+ to AA-	-	-	-	-	-
A+ to A-	7,421	-	-	-	7,421
BBB+ to BBB-	-	-	-	-	-
BB+ to BB-	-	-	-	-	-
B+ and below	-	-	-	-	-
Loss allowance	-	-	-	-	-
Carrying amount	7,421	-	-	-	7,421

Securities purchased under resale agreements and securities borrowing transactions credit risk exposures by rating grades

					2018
CSS(E)L Group and Company (USD million)	12-month ECL (Stage 1)	Lifetime ECL not credit-impaired (Stage 2)	Lifetime ECL credit-impaired (Stage 3)	Purchased credit-impaired	Total
AAA	-	-	-	-	-
AA+ to AA-	340	-	-	-	340
A+ to A-	15,361	-	-	-	15,361
BBB+ to BBB-	19	-	-	-	19
BB+ to BB-	132	-	-	-	132
B+ and below	420	-	-	-	420
Loss allowance	-	-	-	-	-
Carrying amount	16,272	-	-	-	16,272

Other assets credit risk exposures by rating grades

					2018
CSS(E)L Group and Company (USD million)	12-month ECL (Stage 1)	Lifetime ECL not credit-impaired (Stage 2)	Lifetime ECL credit-impaired (Stage 3)	Purchased credit-impaired	Total
AAA	-	-	-	-	-
AA+ to AA-	3	-	-	-	3
A+ to A-	1,422	-	-	-	1,422
BBB+ to BBB-	76	-	-	-	76
BB+ to BB-	39	-	-	-	39
B+ and below	6	-	-	-	6
Loss allowance	1	-	-	-	1
Carrying amount	1,546	-	-	-	1,546

Financial Guarantee credit risk exposures by rating grades

					2018
CSS(E)L Group and Company (USD million)	12-month ECL (Stage 1)	Lifetime ECL not credit-impaired (Stage 2)	Lifetime ECL credit-impaired (Stage 3)	Purchased credit-impaired	Total
AAA	-	-	-	-	-
AA+ to AA-	-	-	-	-	-
A+ to A-	189	-	-	-	189
BBB+ to BBB-	-	-	-	-	-
BB+ to BB-	-	-	-	-	-
B+ and below	-	-	-	-	-
Loss allowance	-	-	-	-	-
Carrying amount	189	-	-	-	189

	Group			Company		
	Gross	Collateral	Net	Gross	Collateral	Net
2017 Maximum exposure to credit risk (USD million)¹						
Cash and due from banks	2,662	–	2,662	2,640	–	2,640
Interest-bearing deposits with banks	20,272	–	20,272	20,272	–	20,272
Securities purchased under resale agreements and Securities borrowing transactions	32,525	32,525	–	32,525	32,525	–
Trading financial assets at fair value through profit or loss	–	–	–	–	–	–
Debt securities	2,525	–	2,525	2,525	–	2,525
Derivative trading positions	5,689	5,088	601	5,716	5,089	627
Financial assets designated at fair value through profit or loss	–	–	–	–	–	–
Securities purchased under resale agreements and securities borrowing transactions	23,748	23,373	375	23,748	23,373	375
Other	2,874	–	2,874	1,466	–	1,466
Financial assets available-for-sale	39	–	39	39	–	39
Other assets	12,324	5,205	7,119	12,324	5,205	7,119
Maximum exposure to credit risk – total assets	102,658	66,191	36,467	101,255	66,192	35,063
Off-balance sheet items						
Loan commitments and other credit related commitments	4,602	–	4,602	4,602	–	4,602
Maximum exposure to credit risk – total off-balance sheet	4,602	–	4,602	4,602	–	4,602
Maximum exposure to credit risk	107,260	66,191	41,069	105,857	66,192	39,665

¹ Above table includes both continued and discontinued operations.

The CSS(E)L Group is exposed to credit risk as a result of a counterparty, borrower or issuer being unable or unwilling to honour its contractual obligations. These exposures to credit risk exist within financing relationships, derivatives and other transactions.

The CSS(E)L Group typically enters into master netting arrangements ('MNA's') with over the counter ('OTC') derivative counterparties. The MNA's allow the CSS(E)L Group to offset derivative liabilities against the derivative assets with the same counterparty in the event the counterparty defaults. Collateral on these derivative contracts is usually posted on a net counterparty basis and comprises either cash or marketable securities or a combination thereof. Included in the table above as collateral and other credit enhancements are the derivative liability amounts which would be offset against the derivative asset position upon default of the counterparty as well as any cash or marketable securities collateral held. Amounts disclosed as collateral and credit enhancements are where a counterparty has an offsetting derivative exposure with the CSS(E)L Group, a legally enforceable MNA exists, and the credit risk exposure is managed on a net basis or the position is specifically collateralised, typically in the form of cash.

Also included in the table within both loans and receivables and financial assets designated at fair value through profit and loss is collateral which the CSS(E)L Group holds against loans in the form of guarantees, cash and marketable securities. The CSS(E)L Group also mitigates its credit exposures on certain loans primarily with credit default swaps, which economically hedge the position and as such the notional on the relevant credit default swap has been included. For further information on the collateral and credit enhancements held against loans designated at fair value, refer to Note 17 – Non-Trading Financial Assets Mandatorily at Fair Value through Profit or Loss.

Reverse repurchase agreements and securities borrowings are typically fully collateralised instruments and in the event of default, the agreement provides the CSS(E)L Group the right to liquidate the collateral held. Reverse repos are included either within Securities purchased under resale agreements or Non-trading financial assets mandatorily at fair value through profit or loss (2017: Financial assets designated at fair value through profit and loss), based on the accounting methodology. These instruments are collateralised principally by government securities, money market instruments, corporate bonds and cash. The CSS(E)L Group monitors the fair value of securities borrowed and lent on a daily basis with additional collateral obtained as necessary. The fair value of the collateral has been included in the table above. For further information on the collateral and credit enhancements held against reverse repurchase agreements and securities borrowing refer to Note 15 – Securities Borrowed, Lent and Subject to Resale or Repurchase Agreements.

Included within Other (Financial assets designated at fair value through profit or loss) are failed purchases that arise when a transaction to purchase an asset has not met the conditions for sale accounting. The CSS(E)L Group typically holds collateral in the form of insurance or securities against the failed purchases.

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 37 – Guarantees and Commitments.

For further information on collateral held as security that the CSS(E)L Group is permitted to sell or repledge refer to Note 40 – Assets Pledged or Assigned.

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.

Risk Mitigation

The CSS(E)L Group actively manages its credit exposure utilising credit hedges and monetisable collateral (cash and marketable securities). Credit hedges represent the notional exposure that

has been transferred to other market counterparties, generally through the use of credit default swaps. The CSS(E)L Group also actively enters into collateral arrangements for OTC derivatives and other traded products, which allows us to limit the counterparty exposure risk associated with these products. Collateral taken generally represents cash or government securities although other securities may be accepted. The value of collateral reflected as a risk mitigant is net of an appropriate haircut.

Counterparty Exposure before Collateral by Rating

Company	2018		2017	
	USD million	%	USD million	%
AAA	49	1	162	2
AA+ to AA-	2,119	30	3,824	48
A+ to A-	2,973	43	3,006	37
BBB+ to BBB-	996	14	703	9
BB+ to BB-	223	3	182	2
B+ and below	602	9	152	2
	6,962	100	8,029	100

Unsecured Exposure by Counterparty Rating

Company	2018		2017	
	USD million	%	USD million	%
AAA	49	1	162	3
AA+ to AA-	1,372	33	3,174	48
A+ to A-	2,185	53	2,592	39
BBB+ to BBB-	383	9	478	7
BB+ to BB-	101	2	69	1
B+ and below	71	2	145	2
	4,161	100	6,620	100

The previous tables include all loans, commitments, derivatives, securities purchased and sold under resale and repurchase agreements, and short term cash trades on a net counterparty exposure basis for the Company. The first table represents mark to market exposures before offsetting any eligible collateral held; the second table represents mark to market exposures after offsetting collateral.

Wrong-way risk ('WWR')

Credit approval and reviews

A primary responsibility of CRM is the approval of new counterparty trading relationships and the subsequent ongoing review of the creditworthiness of the client. Part of the review and approval process involves consideration of the motivation of the client and to identify the directional nature of the trading in which the client is engaged. Credit limits are sized to the level of comfort the CRM officer has with the strategy of the counterparty, the

level of disclosure of financial information and the amount of risk mitigation that is present in the trading relationship (e.g. level of collateral).

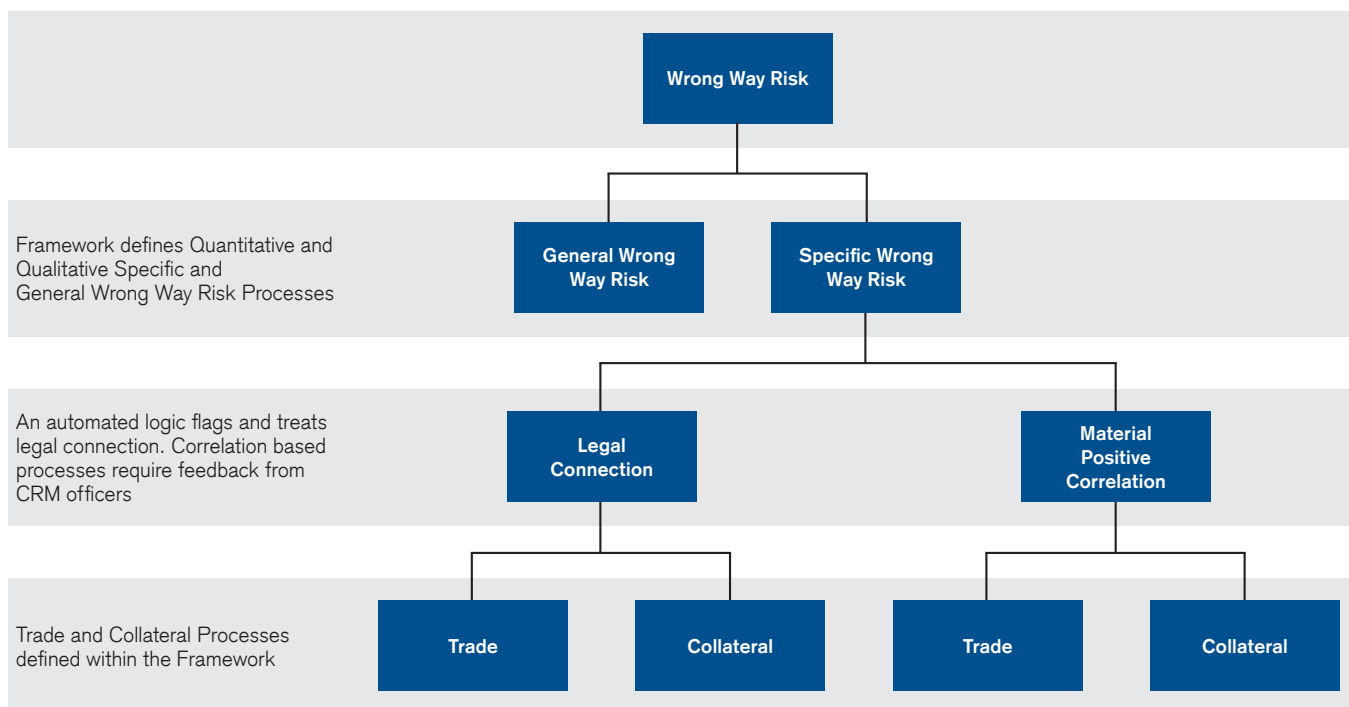
Wrong-way exposures

In a wrong-way trading situation, the Company's exposure to the counterparty increases while the counterparty's financial health and its ability to pay on the transaction diminishes. Capturing WWR requires the establishment of basic assumptions regarding correlations within a given trading product. The Company has multiple processes that allow us to capture and estimate WWR.

Exposure adjusted risk calculation

WWR can arise from different business relationships.

An exposure methodology based on jump to default assumptions, ineligibility of collateral or scenario based add-ons is in place to identify and adjust exposures for all specific WWR types as per the distinction in the following table.



With respect to general WWR, a scenario based exposure add-on is applied to those counterparties identified following the quantitative and qualitative review from Credit Officers.

Wrong-way risk monitoring

Regular reporting of WWR at both the individual trade and portfolio level allows WWR to be monitored and corrective action taken by CRM in the case of heightened concern. General WWR and transactions containing specific WWR due to legal connection are automatically flagged and included in regular reporting. Transactions containing WWR due to correlation are flagged to CRM officers for confirmation and then included in regular reporting. The outcome of the WWR identification process is subject to monthly review from the CSS(E)L Management team via a regular forum.

Settlement Risk

Settlement risk arises whenever the settlement of a transaction results in timing differences between the disbursement of cash or securities and the receipt of counter-value from the counterparty. This risk arises whenever transactions settle on a 'free of payment' basis and is especially relevant when operating across time zones.

In those instances where market convention and/or products preclude a value-for-value exchange, the CSS(E)L Group manages its risk through confirmation and affirmation of transaction details with counterparties. In order to reduce gross settlement risk, the CSS(E)L Group leverages clearing houses, central counterparties and central settlement services, and will also net gross cash flows with a given counterparty where possible. It proactively seeks to manage the timing of settlement

instructions to its agents and the reconciliation of incoming payments in order to reduce the window of exposure. In addition, CRM establishes and monitors limits to control the amount of settlement risk incurred to each counterparty.

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. CSS(E)L has incorporated country limits into its Credit Risk Appetite Framework in order to mitigate this risk in CSS(E)L Group.

For CSS(E)L Group, country limits are set for both developed and emerging markets, based on a potential future exposure view and on a scenario view respectively. Upon CSS(E)L recommendation, maximum appetite and operational limits are calibrated and approved by the CSS(E)L Risk Management Committee (CSS(E)L RMC) on an annual basis or more frequently if warranted by a fundamental change in strategy or market conditions. The measurement of exposures against country limits is reported to CSS(E)L dedicated teams and senior management. Front Office representatives are responsible for ensuring limits are respected and any breach is promptly managed. CRM provides independent oversight to ensure that businesses operate within their limits. During the course of the year, reserves are available to CSS(E)L Chief Credit Officer and the CSS(E)L CRO in case a temporary or permanent limit increase is needed and justified from a risk/return perspective. More fundamental changes to the country risk profile of the firm necessitate discussions and approval at the CSS(E)L RMC.

vi) Legal and Regulatory Risk

The CS group is subject to legal risks in its businesses. Legal risks include, among other things, the risk of litigation (for example, as a result of misselling claims), disputes (for example, over the terms of legacy trades); the inadequacy of transaction documentation (for example, ambiguous terms); unenforceability (for example, of security arrangements); uncertainty with respect to applicable laws and regulations (including change in laws or regulations); and employee disputes. Some of these risks result in claims against the CS group which the CS group defends, settles or results in actual litigation, in each case, that the CS group may incur legal expenses to defend.

The CS group assesses its legal risk and manages it through a combination of controls, including the adoption of policies, the implementation of processes and the use of systems, continuing to refine controls as business activities evolve and the laws that the CS group is subject to change. One of the key controls is the involvement of the General Counsel function and engagement of outside legal counsel. In addition, the CS group is an active participant in a number of key industry and other professional market forums including International Swaps and Derivatives Association ('ISDA') and the Association for Financial Markets in Europe ('AFME').

As a participant in the financial services industry, the CS group is subject to extensive regulation by governmental agencies, supervisory authorities and self-regulatory organisations around the world. Such regulation is increasingly more extensive and complex in its application, in particular, as laws increasingly purport to be extra-territorial and additional obligations may arise where clients are subject to differing regulatory obligations, in practice, requiring CS group to be compliant with such obligations also. These regulations may increase the costs of doing existing business for both the CS group and its clients, including the application of increased capital, leverage and liquidity requirements, customer protection and market conduct regulations and direct or indirect restrictions on the businesses in which the CS group may operate. Such requirements can have a negative effect on the CS group's business and ability to implement strategic initiatives.

The financial services industry continues to be affected by significant complexity of ongoing regulatory reforms, alongside more recently, the significant impact of the CS group planning for a Hard Brexit. Changes in laws, rules or regulations, or in their interpretation or enforcement, or the implementation of new laws, rules or regulations, may adversely affect CS group.

vii) Operational and Compliance Risk

Definition

Operational risk is the risk of financial loss arising from inadequate or failed internal processes, people or systems, or from external events. Operational risk does not include strategic and reputational risks. However, some operational risks can lead to

reputational issues and as such operational and reputational risks may be closely linked.

Sources of operational risk

Operational risk is inherent in most aspects of our business, including the systems and processes that support our activities. It comprises a large number of disparate risks that can manifest in a variety of ways. Examples of operational risk include the risk of damage to physical assets, business disruption, failures relating to third-party processes, data integrity and trade processing, cyber attacks and fraudulent or unauthorised transactions. Operational risk can arise from human error, inappropriate conduct, failures in systems, processes and controls, deliberate attack or natural and man-made disasters.

Compliance and regulatory risk

Compliance and regulatory risk is the risk from the failure to comply with laws, regulations, rules or market standards that may have a negative effect on our franchise and clients CS group serves. It includes the risk that changes in laws, regulations, rules or market standards may limit our activities and have a negative effect on our business or our ability to implement strategic initiatives, or can result in an increase in operating costs for the business or make our products and services more expensive for clients. Examples of sources of compliance risks include cross-border activities, the risk of money laundering, improper handling of confidential information, conflicts of interest, improper gifts and entertainment and failure in duties to clients.

Enterprise Risk & Control Framework

To effectively manage operational and compliance risks, the CS group ERCF was introduced in 2016 focusing on the early identification, recording, assessment, monitoring, prevention and mitigation of these risks, as well as timely and meaningful management reporting. Over the past three years, CSS(E)L have further improved the integration of previously separate operational risk processes, providing a more coherent and systematic approach to managing all aspects of the operational risk landscape. Under the ERCF, CSS(E)L integrated the operational risk framework and all of its components with the compliance risk components to further harmonise our approach to non-financial risk. The assessment processes for operational and compliance risks are closely coordinated, resulting in an enhanced risk and control self-assessment ('RCSA') that covers both risk types in a more consistent manner. Also, standardised CS group role descriptions define the responsibilities for identifying, assessing, reporting and managing risks across the organisation. In 2018, continued progress was made in rolling out a systematic key control activities framework as part of the ERCF. This framework applies consistent standards and approaches to the identification, documentation and assessment of key controls across the Group.

The ERCF provides a structured approach to managing operational and compliance risks. It seeks to apply consistent standards and techniques for evaluating risks across CSS(E)L while providing individual businesses with sufficient flexibility to tailor specific

components to their own needs, as long as they meet CS group minimum standards. The main components of the ERCF are:

- **Governance and policies** are fundamental to ERCF. Effective governance processes establish clear roles and responsibilities for managing operational and compliance risk and define appropriate escalation processes for outcomes that are outside expected levels. CSS(E)L utilise a comprehensive set of policies and procedures that set out how employees are expected to conduct their activities.
- Each business area takes responsibility for its operational and compliance risks and the provision of adequate resources and procedures for the management of those risks. Businesses are supported by designated second line of defense operational risk and compliance teams that are responsible for independent risk oversight, methodologies, tools and reporting within their areas as well as working with management on any operational and compliance risk issues that arise. Businesses and relevant control functions meet regularly to discuss operational and compliance risk issues and identify required actions to mitigate risks.
- The operational risk management and compliance functions are jointly responsible for setting minimum standards with policies and procedures for operational and compliance risks. This includes ensuring the cohesiveness of policies, tools and practices throughout the Group particularly with regard to the identification, evaluation, mitigation, monitoring and reporting of these risks.
- Operational and compliance risk exposures, metrics, issues and remediation efforts are discussed at the quarterly CARMC meetings of the internal control system cycle and at legal entity operational risk and compliance management committees, which have senior representatives from all relevant functions.

ERCF risk appetite determines our approach to risk-taking and articulates the motivations for taking, accepting or avoiding certain types of risks or exposures. Senior management expresses their operational and compliance risk appetite in terms of quantitative tolerance levels that apply to operational risk incidents (which may also arise due to compliance issues) and qualitative statements covering outcomes that should be avoided. Senior management also defines market area and client risk appetites. In 2018, CSS(E)L further enhanced our conduct risk appetite. The risk appetites are defined with the relevant risk management committees in agreement with the operational risk management and compliance functions.

ERCF risk taxonomy represents a unified and standardised catalogue of inherent non-financial risk definitions across operational and compliance risk. It provides a consistent approach to the identification and classification of these risks across the Group.

ERCF key controls are documented and assessed under a common controls assessment framework, ensuring that key controls are identified, documented, executed and assessed consistently and comprehensively, with a focus on the most significant risks and associated key controls. CSS(E)L utilise a comprehensive set

of internal controls that are designed to ensure that our activities follow agreed policies and that processes operate as intended. Key controls are subject to independent testing to evaluate their effectiveness. The results of these tests are considered by other ERCF components, such as in the RCSA process.

ERCF metrics are risk and control indicators that are used to monitor identified operational risks, compliance risks and controls over time. A key risk indicator is defined as a metric used to provide early warning of increasing risk exposure and can be backward and forward looking in nature. A key control indicator is defined as a metric that assesses and monitors the effectiveness of one or several controls. Minimum standards apply to the identification, selection, risk mapping approval, monitoring and escalation of metrics that are linked to ERCF risk appetite and top ERCF risks which are reported to legal entity risk management committees. Key risk and control indicators may also be used as inputs into scenario analysis and capital allocation.

Incidents describes the process in which CS group systematically collects, analyses and reports data on operational and compliance risk incidents to ensure that CSS(E)L understand the reasons why they occurred and how controls can be improved to reduce the risk of future incidents. CS group focus both on incidents that result in economic losses and on events that provide information on potential control gaps, even if no losses occurred. CS group also collect and utilise available data on incidents at relevant peer CS group to identify potential risks that may be relevant in the future, even if they have not impacted the legal entity. Incident data is also a key input for our operational risk capital models and other analytics.

Enterprise risk and control assessment consolidates the assessment, review and challenge activities for operational, compliance and legal risks across all divisions and functions into a single framework and consists of the elements RCSA, compliance risk assessment and any associated legal risk assessment:

- **Risk and control self-assessments** ('RCSA') are comprehensive, bottom-up assessments of the key operational and compliance risks in each business and control function. The process of preparing RCSAs comprises a self-assessment of the relevant business line or functional risk profile based on the ERCF risk taxonomy classifying risks under a standardised approach. It covers an assessment of the inherent risks of each business and control function, provides an evaluation of the effectiveness of the controls in place to mitigate these risks, determines the residual risk ratings and requires a decision to either accept or remediate any residual risks. In the case of remediation, mitigating actions are defined and approved by management. While these are self-assessments, they are subject to independent review and challenge by relevant risk management functions to ensure that they have been conducted appropriately. RCSAs utilise other components of the ERCF, such as ERCF metrics and incidents, and they generate outputs that are used to manage and monitor risks.

- **Compliance risk assessment** is the CS group formal, proactive dynamic process which provides the framework for the independent second line compliance function to formally assess the overall compliance and regulatory risks associated with a particular business unit or business activity. The results are used to identify potential or actual areas of risk in the business which also assists compliance management in planning the compliance objectives to mitigate risks identified. This risk assessment consists of an analysis of the inherent risk and control effectiveness aligned to the compliance risk categories and is performed at the level of a risk unit. Quantitative metrics are leveraged wherever possible, supplementing the qualitative assessments. Upon completion of the assessment, overall risk unit ratings are established through a compliance divisional, legal entity and CS group review and mitigating actions are identified as appropriate. The results of the compliance risk assessment are presented to the Group Board of Directors and Audit Committee, and the CSS(E)L Board of Directors.
- **Legal risk assessment** is a sub-assessment of the Group's RCSA with the objective to conduct an enhanced assessment of legal risks across the Group. The legal risk assessment is based on the principles defined for the RCSA program. The General Counsel function reviews the results of the legal risk assessments performed by business units across the Group. The legal risk assessment complements the RCSA process in providing an independent review and challenge process by the second line of defense.

Top ERCF risks are identified at the legal entity level and represent the most significant risks requiring senior management attention. They are generated through a combination of top-down assessment by senior management and a bottom-up process collating the main themes arising from the RCSA and compliance risk assessment processes. Where appropriate, remediation plans are put in place with ownership by senior management.

Issues and action management encompasses a structured approach to responding to operational and compliance risk incidents and breaches of ERCF quantitative and qualitative risk appetite or metrics, as well as continuous monitoring of remediation actions against identified control issues. Further, the compliance and regulatory responses function consolidates and monitors issues and actions CS group including audit, regulatory, self-identified and second line identified issues and actions. The operational risk incident management component includes a defined process for identifying, categorising, investigating, escalating and remediating incidents. These reviews seek to assess the causes of control weaknesses, establish appropriate remediation actions and ascertain whether events have implications for other businesses or could have potential impact in the future. They can result in recommendations to impose restrictions on businesses while operational risk management processes and controls are improved. The breach component provides a methodology for evaluating breaches of quantitative and qualitative ERCF risk appetite statements. Its goal is to provide senior management with the information needed to make decisions on how to best remediate issues that fall outside agreed risk appetite levels.

Where appropriate, major strategic change programs may also undergo independent **ERCF change assessments** by the operational risk function, leveraging the ERCF assessment framework to determine the potential impact of the change activity on the overall operational risk profile of the impacted area both during and after implementation.

ERCF scenario analysis is focused on operational and compliance risks and is used to identify and measure exposure to a range of adverse events, such as unauthorised trading, transaction processing errors and compliance issues. These scenarios help businesses assess the suitability of controls in light of potential losses, and they are also an input to the internal models used by the Group to calculate stressed loss projections as well as economic and regulatory capital. More specifically, the **ERCF stress testing** is a sub-component of the CS group stress testing framework and it focuses on the evaluation of potential operational risk impacts of macro-economic scenarios on net income and regulatory capital across a number of operational risk categories. **Operational Risk regulatory capital** is based on the Business Indicator Approach which for the internal capital adequacy assessment process is supplemented by internal models and scenario analysis. Finally, **ERCF reverse stress testing** is an additional complementary tool that introduces a more forward-looking element into the RCSA process. It assumes that a business has suffered an adverse outcome, such as a large operational risk loss, and requires consideration of the events that could have led to the result. As such, it allows for the consideration of risks beyond normal business expectations and it challenges common assumptions about the risk profile, the emergence of new risks or interactions between existing risks, as well as the performance of expected control and mitigation strategies.

Transfer of operational risk to third-party insurance companies

In addition to managing and mitigating operational risks under the ERCF through business- and risk-related processes and organisation, CSS(E)L also transfer the risk of potential loss from certain operational risks to third-party insurance companies in certain instances.

viii) Conduct Risk

Credit Suisse globally defines conduct risk as the risk that improper behaviour or judgement by our employees results in negative financial, non-financial or reputational impact to our clients, employees, the bank, and the integrity of the markets.

Some conduct risks are inherent in our business and negative impact to our clients, employees, the market or competition, can arise from a variety of causes including failed processes, product design, business set-up, execution of organisational change, or as unintended consequences of business decisions.

CSS(E)L apply conduct risk across the bank's Enterprise Risk and Control Framework ('ERCF') Risk Register to identify potential conduct risks and evaluate conduct breaches that have

occurred. In line with our overall risk management model, all staff are responsible for assessing and managing the conduct risks inherent in the activities they undertake.

CSS(E)L seeks to promote good behaviour and conduct through the Code of Conduct, which provides a clear statement of the ethical values and professional standards as a basis for maintaining and strengthening CSS(E)L's reputation for integrity, fair dealing and measured risk-taking, and the set of business conduct behaviours. In addition, the Conduct and Ethics Standards further embed clear expectations of Credit Suisse's employees to ensure that the right things are done in the right way. The Code of Conduct and the set of Conduct and Ethics Standards are linked to CSS(E)L's employee performance assessment and compensation processes.

ix) Technology Risk

Technology risk deserves particular attention given the complex technological landscape that covers our business model. Ensuring that confidentiality, integrity and availability of information assets are protected is critical to our operations. Technology risks are managed through our technology risk management program, business continuity management plan and business contingency and resiliency plans. Technology risks feature as part of our overall enterprise risk and control assessment based upon a forward-looking approach focusing on the most significant risks in terms of potential impact and likelihood.

Technology risk is the risk that technology-related failures, such as service outages or information security incidents, may disrupt business. Technology risk is inherent not only in our IT assets, but also in the people and processes that interact with them including through dependency on third-party suppliers and the worldwide telecommunications infrastructure. CSS(E)L seek to ensure that the data used to support key business processes and reporting is secure, complete, accurate, available, timely and meets appropriate quality and integrity standards. CSS(E)L require our critical IT systems to be identified, secure, resilient and available and support our ongoing operations, decision-making, communications and reporting. Our systems must also have the capability, capacity, scalability and adaptability to meet current and future business objectives, the needs of our customers and regulatory and legal expectations. Failure to meet these standards and requirements may result in adverse events that could subject us to reputational damage, fines, litigation, regulatory sanctions, financial losses or loss of market share.

Cyber risk, which is part of technology risk, is the risk that CSS(E)L will be compromised as a result of cyber attacks, security breaches, unauthorised access, loss or destruction of data, unavailability of service, computer viruses or other events that could have an adverse security impact. Any such event could subject us to litigation or cause us to suffer a financial loss, a disruption of our businesses, liability to our clients, regulatory intervention or reputational damage. CSS(E)L could also be required to expend significant additional resources to modify our protective

measures or to investigate and remediate vulnerabilities or other exposures.

While CS has not experienced any major impactful cyber incidents, CSS(E)L recognise that cyber risk represents a rapidly evolving, and generally worsening, external risk landscape in terms of the capabilities and intent of those seeking to exploit weaknesses in the global financial system, where CSS(E)L might be targeted or simply suffer unintended collateral damage. The financial industry continues to face cyber threats from a variety of actors who are driven by monetary, political and other motivations. CS actively monitors external incidents and threats and assesses and responds accordingly to any potential vulnerabilities that this may reveal. CS is also an active participant in industry forums and information exchange initiatives and engages in regulatory consultation on the topic.

CSS(E)L has an enterprise-wide Cybersecurity Strategy to provide strategic guidance to achieve an optimised end-to-end security and risk competence that enables a secure and innovative business environment, aligned with the company's risk appetite. CSS(E)L's Technology Security Team in IT leverages a wide array of leading technology solutions and industry best practice (e.g. NIST) to maintain a secure perimeter and detect and respond to threats in real time.

CSS(E)L regularly assesses the effectiveness of the key controls and conducts ongoing employee training and awareness activities, including for key management personnel, in order to embed a strong cyber risk culture. Within the wider Enterprise and Risk Control Framework, senior management are given increasingly quantitative pictures of the broader technology risk exposure and of progress in those areas identified as Top Operational Risks.

Senior management (including the CSS(E)L Board Risk Committee) are actively engaged and regularly updated on the extent of the threat, the mitigations in place to counter this threat, and the business continuity and response plans in place to manage cyber incidents. These recovery and response business continuity plans are rehearsed regularly at all levels, up to and including the CSS(E)L Board of Directors. Significant incidents are escalated to Board level together with lessons learned and mitigation plans.

x) Reputational Risk

CSS(E)L highly values its reputation and is fully committed to protecting it through a prudent approach to risk-taking, and responsible approach to business. This is achieved through use of dedicated processes, resources and policies focused on identifying, evaluating, managing and reporting potential reputational risks. This is also achieved through applying the highest standards of personal accountability and ethical conduct as set out in the CS group Code of Conduct, and the CS group approach to Conduct and Ethics.

CSS(E)L acknowledges that as a large global financial institution, with a wide range of businesses and stakeholders, it may be

subject to general criticism or negative perception from time to time which may negatively impact its reputation.

CSS(E)L also acknowledges that it will knowingly engage in specific activities where opinions may vary depending on the perspective and standpoint of each party, and which may lead to negative perception from some stakeholders.

In both these cases, CSS(E)L accepts reputational risk only where we can justify at the time decisions are taken that:

- The activity is in line with our stated Code of Conduct, and Conduct and Ethics Standards
- Informed judgement is exercised in line with our internal sector policies and thematic guidelines, including region specific concerns or mitigation, where applicable.

CSS(E)L has no appetite for engaging in activity that exposes the CS group to reputational risk where these conditions are not met.

CSS(E)L has adopted the CS Global Policy on Reputational Risk ('the Policy') which 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, action or client relationship, 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 CSS(E)L Board has delegated reputational risk issues to be reviewed via the Company's global RRRP which includes an overview of the transaction or action being considered, the risks identified and relevant mitigating factors and views from internal subject matter experts. All formal submissions in the RRRP require review by the UK Senior Manager in the relevant division, and assuming they are supportive of the proposal are then subsequently referred to one of CSS(E)L'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 the Company's participation. If the RRA considers there to be a material reputational risk associated with a submission, it is escalated to the CSS(E)L Reputational Risk Committee ('the Committee') for further discussion, review and final decision. The Committee is comprised of senior Company entity management across divisions and corporate functions.

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 relevant regional Committee.

43 Offsetting of Financial Assets and Financial Liabilities

The disclosures set out in the following tables include derivative instruments, reverse repurchase and repurchase agreements, securities lending and borrowing transactions, and other financial assets and financial liabilities that:

- are offset in the CSS(E)L Group's Consolidated Statement of Financial Position; or
- are subject to an enforceable master netting agreement or similar agreement (enforceable master netting agreements), irrespective of whether they are offset in the CSS(E)L Group's Consolidated Statement of Financial Position.

Similar agreements include derivative clearing agreements, global master repurchase agreements, global master securities lending agreements, and any related rights to financial collateral.

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

Derivatives

The CSS(E)L Group 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 ISDA Master Agreements do not meet the criteria for offsetting in the Consolidated 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 CSS(E)L Group or the counterparties or following other predetermined events. In addition CSS(E)L Group and its counterparties do not intend to settle on a net basis or to realise the assets and settle the liabilities simultaneously.

Collateral for OTC derivatives is received and provided in the form of cash and marketable securities. Such collateral may be subject to the standard industry terms of an ISDA Credit Support Annex. The terms of an ISDA Credit Support Annex provide that securities received or provided as collateral may be pledged or sold during the term of the transactions and must be returned upon maturity of the transaction. These terms also give each counterparty the right to terminate the related transactions upon the

other counterparty's failure to post collateral. Financial collateral received or pledged for OTC derivatives may also be subject to collateral agreements which restrict the use of financial collateral.

For exchange-traded derivatives, positive and negative replacement values and related cash collateral are offset if the terms of the rules and regulations governing these exchanges respectively central clearing counterparties permit such netting and offset because the CSS(E)L Group:

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

To meet criterion (1), the right of set-off:

- must not be contingent on a future event; and
- must be legally enforceable in all of the following circumstances:
 - i the normal course of business;
 - ii the event of default; and
 - iii the event of insolvency or bankruptcy of the entity and all of the counterparties.

Criterion (2) may only be met, if – depending on the settlement mechanism – certain criteria are met (e.g., derivatives with the same currency).

Where no such agreements exist, fair values are recorded on a gross basis.

Under IFRS, the CSS(E)L Group has elected to account for substantially all hybrid financial instruments with an embedded derivative that is not considered closely related to the host contract at fair value. Where these hybrid financial instruments are subject to an enforceable master netting agreement or similar agreement, they are included in the tables Offsetting of 'Funded Derivatives' on page 170-171.

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 Consolidated Statement of Financial Position.

Offsetting of derivative instruments

CSS(E)L Group	2018			2017		
	Gross	Offsetting	Net ²	Gross	Offsetting	Net
Derivative Assets (USD million)						
Derivative instruments subject to enforceable master netting agreements	5,364	–	5,364	5,615	–	5,615
Derivative instruments not subject to enforceable master netting agreements ¹	66	–	66	90	–	90
Total derivative instruments presented in the Consolidated Statement of Financial Position	5,430	–	5,430	5,705	–	5,705
of which recorded in trading financial assets at fair value through profit or loss	5,425	–	5,425	5,705	–	5,705
of which recorded in other assets	5	–	5	–	–	–
Derivative Liabilities (USD million)						
Derivative instruments subject to enforceable master netting agreements	5,565	–	5,565	5,359	–	5,359
Derivative instruments not subject to enforceable master netting agreements ¹	149	–	149	156	–	156
Total derivative instruments presented in the Consolidated Statement of Financial Position	5,714	–	5,714	5,515	–	5,515
of which recorded in trading financial liabilities at fair value through profit or loss	5,711	–	5,711	5,515	–	5,515
of which recorded in other liabilities	3	–	3	–	–	–

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

² Above table includes both continued and discontinued operations. Assets and liabilities pertaining to discontinued operations are USD 118 and USD 122 respectively

Company	2018			2017		
	Gross	Offsetting	Net ²	Gross	Offsetting	Net
Derivative Assets (USD million)						
Derivative instruments subject to enforceable master netting agreements	5,364	–	5,364	5,615	–	5,615
Derivative instruments not subject to enforceable master netting agreements ¹	72	–	72	101	–	101
Total derivative instruments presented in the Company Statement of Financial Position	5,436	–	5,436	5,716	–	5,716
of which recorded in trading financial assets at fair value through profit or loss	5,431	–	5,431	5,716	–	5,716
of which recorded in other assets	5	–	5	–	–	–
Derivative Liabilities (USD million)						
Derivative instruments subject to enforceable master netting agreements	5,566	–	5,566	5,359	–	5,359
Derivative instruments not subject to enforceable master netting agreements ¹	135	–	135	127	–	127
Total derivative instruments presented in the Company Statement of Financial Position	5,701	–	5,701	5,486	–	5,486
of which recorded in trading financial liabilities at fair value through profit or loss	5,698	–	5,698	5,486	–	5,486
of which recorded in other liabilities	3	–	3	–	–	–

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

² Above table includes both continued and discontinued operations. Assets and liabilities pertaining to discontinued operations are USD 118 and USD 122 respectively

Reverse repurchase and repurchase agreements and securities lending and borrowing transactions

Reverse repurchase and 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 and repurchase agreements may also be novated with central clearing counterparties and therefore covered by the central clearing counterparty's rules and regulations.

Bilateral as well as centrally cleared reverse repurchase and repurchase transactions are netted in the Consolidated Statement of Financial Position if the global master repurchase agreements respectively the terms of the rules and regulations governing the central clearing counterparties permit such netting and offset because the CSS(E)L Group:

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

The net settlement criterion in (2) will also be met, if the CSS(E)L Group can settle amounts in a manner such that the outcome is, in effect, equivalent to net settlement. This will occur if, and only if, the gross settlement mechanism has features that eliminate or result in insignificant credit and liquidity risk, and that will process receivables and payables in a single settlement process or cycle.

The amounts offset are measured on the same basis as the underlying transaction (i.e. on an accrual basis or fair value basis).

Securities lending and borrowing transactions are generally executed under global master securities lending agreements with netting terms similar to ISDA Master Agreements. In certain situations, for example in the event of default, all contracts under the agreement are terminated and are settled net in one single payment. Securities lending and borrowing transactions may also be novated with central clearing counterparties and therefore covered by the central clearing counterparty's rules and regulations. Transactions under these similar agreements are not netted in the Consolidated Statement of Financial Position because most securities lending and borrowing transactions do not meet the criterion of having the same settlement date specified at inception of the transaction, and therefore they are not eligible for netting in the Consolidated Statement of Financial Position apart from the other conditions to be met for netting.

Reverse repurchase and repurchase agreements are collateralised principally by government securities, money market instruments and corporate bonds and have terms ranging from overnight to a longer or unspecified period of time. In the event of counterparty default, the reverse repurchase agreement or securities lending agreement provides the CSS(E)L Group with the right to liquidate the collateral held. As is the case in the CSS(E)L Group's normal course of business, substantially all of the collateral received that may be sold or repledged was sold or repledged as of December 31, 2018 and December 31, 2017. 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 and securities borrowing transactions subject to enforceable master netting agreements, the amount of offsetting, the amount of securities purchased under resale agreements and securities borrowing transactions not subject to enforceable master netting agreements and the net amount presented in the Consolidated Statement of Financial Position.

Offsetting of securities purchased under resale agreements and securities borrowing transactions

CSS(E)L Group and Company	2018			2017		
	Gross	Offsetting	Net ³	Gross	Offsetting	Net
Securities purchased under resale agreements and securities borrowing transactions (USD million)						
Securities purchased under resale agreements	50,503	(8,182)	42,321	44,880	(10,903)	33,977
Securities borrowing transactions	10,028	–	10,028	20,107	–	20,107
Total subject to enforceable master netting agreements	60,531	(8,182)	52,349	64,987	(10,903)	54,084
Total not subject to enforceable master netting agreements¹	1,205	–	1,205	1,919	–	1,919
Total	61,736	(8,182)	53,554	66,906	(10,903)	56,003²

¹ Represents securities purchased under resale agreements and securities borrowing transactions where a legal opinion supporting the enforceability of netting in the event of default or termination under the agreement is not in place.

² USD 44,569 million (2017: USD 34,054 million) of the total gross amount are reported at fair value.

³ Above table includes both continued and discontinued operations.

The following table presents the gross amount of securities sold under repurchase agreements and securities lending transactions subject to enforceable master netting agreements, the amount of offsetting, the amount of securities sold under repurchase

agreements and securities lending transactions not subject to enforceable master netting agreements and the net amount presented in the Consolidated Statement of Financial Position.

Offsetting of securities sold under repurchase agreements and securities lending transactions

CSS(E)L Group and Company	2018			2017		
	Gross	Offsetting	Net ³	Gross	Offsetting	Net
Securities sold under repurchase agreements and securities lending transactions (USD million)						
Securities sold under repurchase agreements	36,909	(8,182)	28,727	38,677	(10,903)	27,774
Securities lending transactions	6,193	–	6,193	19,778	–	19,778
Total subject to enforceable master netting agreements	43,102	(8,182)	34,920	58,455	(10,903)	47,552
Total not subject to enforceable master netting agreements¹	200	–	200	432	–	432
Total	43,302	(8,182)	35,120	58,887	(10,903)	47,984²

¹ Represents securities purchased under resale agreements and securities borrowing transactions where a legal opinion supporting the enforceability of netting in the event of default or termination under the agreement is not in place.

² USD 37,091 million (2017: USD 38,416 million) of the total gross amount are reported at fair value.

³ Above table includes both continued and discontinued operations.

The following table presents the gross amount of Prime Brokerage Receivables and Funded Derivative Assets subject to enforceable master netting agreements, the amount of offsetting,

the amount of Funded Derivative Assets not subject to enforceable master netting agreements and the net amount presented in the Consolidated Statement of Financial Position.

Offsetting of prime brokerage receivables and funded derivative assets

CSS(E)L Group and Company	2018			2017		
	Gross	Offsetting	Net	Gross	Offsetting	Net
Prime brokerage receivables and funded derivative assets (USD million)						
Prime brokerage receivables subject to enforceable master netting agreements	463	–	463	5,205	–	5,205
Funded derivative assets subject to enforceable master netting agreements	–	–	–	–	–	–
Total subject to enforceable master netting agreements	463	–	463	5,205	–	5,205
Total not subject to enforceable master netting agreements¹	7	–	7	28	–	28
Total	470	–	470	5,233	–	5,233

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

Funded Derivative Assets are recorded in Non-Trading Financial Assets Mandatorily at Fair Value Through Profit and Loss (2017: Financial Assets Designated at Fair Value Through Profit and Loss) and Prime Brokerage Receivables are recorded in Other Assets in the Consolidated Statement of Financial Position.

The following table presents the gross amount of Prime Brokerage Payables and Funded Derivative Liabilities subject to enforceable master netting agreements, the amount of offsetting, the amount of Funded Derivative Liabilities not subject to enforceable master netting agreements and the net amount presented in the Consolidated Statement of Financial Position.

Offsetting of prime brokerage payables and funded derivative liabilities

CSS(E)L Group and Company	2018			2017		
	Gross	Offsetting	Net	Gross	Offsetting	Net
Prime brokerage payables and funded derivative liabilities (USD million)						
Prime brokerage payables subject to enforceable master netting agreements	3,724	–	3,724	4,602	–	4,602
Funded derivative liabilities subject to enforceable master netting agreements	203	–	203	415	–	415
Total subject to enforceable master netting agreements	3,927	–	3,927	5,017	–	5,017
Total not subject to enforceable master netting agreements¹	49	–	49	570	–	570
Total	3,976	–	3,976	5,587	–	5,587

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

Funded Derivative Liabilities are recorded in Financial Liabilities Designated at Fair Value Through Profit and Loss and Prime Brokerage Payables are recorded in Other liabilities in the Consolidated Statement of Financial Position.

The following table presents the net amount presented in the Consolidated 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 Consolidated Statement of Financial Position. The gross amount of financial instruments not offset in the

Consolidated Statement of Financial Position includes amounts related to recognised financial instruments that do not meet some or all of the offsetting criteria in IAS 32.42 as well as non-cash financial collateral. The table excludes derivative instruments, reverse repurchase and repurchase agreements, securities lending and borrowing transactions and funded derivatives 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 Consolidated Statement of Financial Position

CSS(E)L Group	2018				2017			
	Net ¹	Financial instruments ²	Cash collateral received/pledged ²	Net exposure	Net ¹	Financial instruments ²	Cash collateral received/pledged ²	Net exposure
Financial assets subject to enforceable master netting agreements (USD million)								
Derivative instruments	5,364	(4,202)	(940)	222	5,705	(3,655)	(1,433)	617
Securities purchased under resale agreements	42,321	(42,294)	(27)	–	33,977	(33,952)	(25)	–
Securities borrowing transactions	10,028	(9,584)	–	444	20,107	(20,037)	–	70
Prime brokerage receivables	463	–	(463)	–	5,205	–	(5,205)	–
Total financial assets subject to enforceable master netting agreements	58,176	(56,080)	(1,430)	666	64,994	(57,644)	(6,663)	687
Financial liabilities subject to enforceable master netting agreements (USD million)								
Derivative instruments	5,565	(3,666)	(524)	1,375	5,515	(3,085)	(629)	1,801
Securities sold under repurchase agreements	28,727	(28,675)	(52)	–	27,774	(27,719)	(55)	–
Securities lending transactions	6,193	(6,193)	–	–	19,778	(19,778)	–	–
Prime brokerage payables	3,724	–	–	3,724	4,602	–	–	4,602
Funded derivative instruments	203	–	–	203	415	–	–	415
Total financial liabilities subject to enforceable master netting agreements	44,412	(38,534)	(576)	5,302	58,084	(50,582)	(684)	6,818

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

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

Amounts not offset in the Company Statement of Financial Position

Company	2018				2017			
	Net ¹	Financial instruments ²	Cash collateral received/pledged ²	Net exposure	Net ¹	Financial instruments ²	Cash collateral received/pledged ²	Net exposure
Financial assets subject to enforceable master netting agreements (USD million)								
Derivative instruments	5,364	(4,202)	(940)	222	5,716	(3,655)	(1,433)	628
Securities purchased under resale agreements	42,321	(42,294)	(27)	–	33,977	(33,952)	(25)	–
Securities borrowing transactions	10,028	(9,584)	–	444	20,107	(20,037)	–	70
Prime brokerage receivables	463	–	–	463	5,205	–	–	5,205
Funded derivative instruments	–	–	–	–	–	–	–	–
Total financial assets subject to enforceable master netting agreements	58,176	(56,080)	(967)	1,129	65,005	(57,644)	(1,458)	5,903
Financial liabilities subject to enforceable master netting agreements (USD million)								
Derivative instruments	5,566	(3,666)	(524)	1,376	5,486	(3,085)	(629)	1,772
Securities sold under repurchase agreements	28,727	(28,675)	(52)	–	27,774	(27,719)	(55)	–
Securities lending transactions	6,193	(6,193)	–	–	19,778	(19,778)	–	–
Prime brokerage payables	3,724	–	–	3,724	4,602	–	–	4,602
Funded derivative instruments	203	–	–	203	415	–	–	415
Total financial liabilities subject to enforceable master netting agreements	44,413	(38,534)	(576)	5,303	58,055	(50,582)	(684)	6,789

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

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

Net exposure is subject to further credit mitigation through the transfer of the exposure to other market counterparties by the general use of CDSs. Therefore the net exposure presented in the

table is not representative for the CSS(E)L Group's counterparty exposure.

44 Capital Adequacy

The Company's capital adequacy is managed and monitored based on practices developed by the Basel Committee on Banking Supervision ('BCBS') 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.

The CS group considers a strong and efficient capital position to be a priority. Consistent with this, the Company closely monitors its capital 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 regulatory regime and any forthcoming changes to the capital framework or to the Company's business model. CS group continues to provide confirmation that it will ensure that the Company is able to meet its debt obligations and maintain a sound financial position over the foreseeable future.

Multi-year business forecasts and capital plans are prepared by the Company, taking into account its business strategy and the impact of known regulatory changes. These plans are subjected to various stress tests, reflecting both macroeconomic and specific risk scenarios, as part of the ICAAP. Within these stress tests, potential management actions, that are consistent with both the

market conditions implied by the stress test and the stress test outcome, are identified. The results of these stress tests and associated management actions are updated regularly, as part of the ICAAP, with results documented and reviewed by the Board of Directors. The ICAAP then forms the basis for any Supervisory Review and Evaluation Process ('SREP') review that the PRA conducts when assessing an institution's level of regulatory capital.

Own Funds

Own Funds 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 Company's overall capital needs are reviewed to ensure that its own funds can appropriately support the anticipated needs of its businesses. The capital management framework is designed to ensure that own funds are sufficient to support the 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 2018, there was no repayment of subordinated debt or shareholders' equity repatriation. In 2017, USD 1.251 billion of Tier 2 subordinated debt was repaid, this comprised of USD 1.25 billion

to Credit Suisse PSL and USD 0.6 million to Credit Suisse Finance BV. Capital Impact of IFRS 9 is not material.

Overall movements in own funds were as follows:

Company	2018	2017
Own Funds (USD million)		
Own Funds at 1 January	8,947	10,728
Change in Tier 1 Instruments:	–	–
Change in Tier 2 Instruments:		
Subordinated Debt Issued	–	–
Subordinated Debt Repayment	–	(1,251)
Net movement on Tier 2 capital	1	–
Profit and loss and movements in other comprehensive income	(137)	(407)
Net movement in regulatory deductions and prudential filters	75	(123)
Own Funds at 31 December	8,886	8,947

Under the BCBS guidelines, an institution must have a ratio of total eligible capital to aggregate RWA of at least 8%. In addition, the EBA requires a CET1 ratio of 4.5% and a Tier 1 ratio of 6% in 2018 and 2017. The RWA reflect the credit, market, operational and other risks of the Company calculated using methodologies set out in the CRR.

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

The following table sets out details of the Company's own funds at 31 December 2018 and 2017.

Company	2018	2017
Own Funds (USD million)		
Total shareholders' equity	7,581	7,718
Other deductions:		
Regulatory deductions	(1)	(1)
Excess of expected loss amounts over credit risk adjustments	(29)	(34)
Defined benefit pension fund assets	(761)	(812)
Securitisation positions	–	(21)
DTA on non-temporary differences	(51)	(21)
Prudential filters	(104)	(132)
Total Tier 1 capital	6,635	6,697
Tier 2 capital		
Subordinated debt	2,250	2,250
Standardised General Credit Risk Adjustments	1	–
Total Tier 2 capital	2,251	2,250
Total Tier 1 and Tier 2 capital	8,886	8,947
Own Funds	8,886	8,947

45 Country-by-Country Reporting

Article 89 of the Capital Requirements Directive IV (Directive 2013/36/EU) requires institutions (credit institutions or investment firms, their branches, and subsidiaries) to disclose annually: their name, the nature of their activities and geographic location, number of employees, and their turnover, pre-tax profit or loss, taxes paid and public subsidies received, on a country-by-country basis for the year ended 2018.

Basis of preparation

- **Country:** The geographical location of CSS(E)L, its material branches and subsidiaries considers the country of incorporation or residence as well as the relevant tax jurisdiction. The countries are listed in the table below.
- **Entity details:** the name of the entity, the following entity type, and the nature of activity is defined in these elements. CSS(E)L including its branches, is an investment firm whose activities include arranging finance for clients in the international capital markets, providing financial advisory services and acting as dealer in securities, derivatives and foreign exchange

on a principal and agency basis. CSS(E)L's material subsidiaries are disclosed separately.

- **Average Number of Employees:** Defined as the number of employees on a full time equivalent basis, compensated directly by the entity.
- **Turnover:** Defined as net revenues, and is consistent with CSS(E)L's financial statements. Net revenues include total income before impairment and operating expenses, but after net interest, net commissions/fees income and investment and trading income.
- **Pre Tax Profit/(Loss):** Definition of profit/(loss) before tax is consistent with that within CSS(E)L's financial statements, which includes net revenues, less total operating expenses.
- **Corporation Taxes Paid:** Defined as the corporation tax paid for CSS(E)L in each country and does not include taxes refunded back to CSS(E)L on account of tax overpayments in prior years during 2018 or 2017. Other taxes paid are detailed in the Strategic Report, and throughout the Annual Report.
- **Public Subsidies Received:** Interpreted as direct support by the government and there were no public subsidies received by CSS(E)L in 2018 (2017 : Nil).

Country-by-Country report for the year ended 31 December 2018

Name of Entity	Parent, Subsidiary or Branch	Nature of Activity	Average Number of Employees	Turnover USD Million	Pre Tax Profit/(Loss) USD Million	Corporation Taxes Paid USD Million ²	Public Subsidies Received
United Kingdom							
Credit Suisse Securities (Europe) Limited	Parent	Investment firm	1,237	1,159	(147)	–	–
Credit Suisse First Boston Trustees Limited	Subsidiary	Trustee Company for the Credit Suisse Group Pension and Life Assurance Scheme	–	–	–	–	–
Credit Suisse Client Nominees (UK) Limited	Subsidiary	Nominee Company	–	–	–	–	–
Sweden							
Credit Suisse Securities (Europe) Limited, Filial Stockholm	Branch	Branch of an investment firm	1	1	–	–	–
France							
Credit Suisse Securities (Europe) Limited, Paris Branch	Branch	Branch of an investment firm	68	64	8	1	–
Poland							
Credit Suisse Securities (Europe) Limited spolka z. o.o. Oddzial w Polsce	Branch	Branch of an investment firm	–	–	–	–	–
Germany							
Credit Suisse Securities (Europe) Limited, Niederlassung Frankfurt	Branch	Branch of an investment firm	1	2	–	1	–
The Netherlands							
Credit Suisse Securities (Europe) Limited, Amsterdam Branch	Branch	Branch of an investment firm	–	–	–	2	–
South Korea							
Credit Suisse Securities (Europe) Limited, Seoul Branch	Branch	Branch of an investment firm	90	135	89	16	–
Credit Suisse Securities (Europe) Limited	Consolidated ¹		1,397	1,361	(50)	20	–

¹ Variable Interest entities are not included in the above reporting for a full list please see Note 38.

² The Corporation taxes paid above do not include taxes refunded during 2018. Taxes refunded during 2018 for CSS(E)L amounted to USD 4.8 million.

Although no Corporation Taxes were paid in the UK, the Company incurred Bank Levy of USD 21 million, employees social

security of USD 42 million and irrecoverable UK value added tax of USD 41 million.

Country-by-Country report for the year ended 31 December 2017

Name of Entity	Parent, Subsidiary or Branch	Nature of Activity	Average Number of Employees	Turnover USD Million	Pre Tax Profit/(Loss) USD Million	Corporation Taxes Paid USD Million ²	Public Subsidies Received
United Kingdom							
Credit Suisse Securities (Europe) Limited	Parent	Investment firm	2,304	1,129	(459)	–	–
Credit Suisse First Boston Trustees Limited	Subsidiary	Trustee Company for the Credit Suisse Group Pension and Life Assurance Scheme	–	–	–	–	–
Credit Suisse Client Nominees (UK) Limited	Subsidiary	Nominee Company	–	–	–	–	–
Sweden							
Credit Suisse Securities (Europe) Limited, Filial Stockholm	Branch	Branch of an investment firm	1	1	–	–	–
France							
Credit Suisse Securities (Europe) Limited, Paris Branch	Branch	Branch of an investment firm	62	56	(2)	2	–
Poland							
Credit Suisse Securities (Europe) Limited spolka z. o.o. Oddzial w Polsce	Branch	Branch of an investment firm	–	1	–	–	–
Germany							
Credit Suisse Securities (Europe) Limited, Niederlassung Frankfurt	Branch	Branch of an investment firm	54	36	3	3	–
The Netherlands							
Credit Suisse Securities (Europe) Limited, Amsterdam Branch	Branch	Branch of an investment firm	–	–	–	–	–
South Korea							
Credit Suisse Securities (Europe) Limited, Seoul Branch	Branch	Branch of an investment firm	91	101	67	19	–
Credit Suisse Securities (Europe) Limited	Consolidated ¹		2,512	1,324	(391)	24	–

¹ Variable Interest entities are not included in the above reporting for a full list please see Note 38.

² The Corporation taxes paid above do not include taxes refunded during 2017. Taxes refunded during 2017 for CSS(E)L amounted to USD 87 million.

Although no Corporation Taxes were paid in the UK, the Company incurred Bank Levy of USD 27 million, employees social

security of USD 67 million and irrecoverable UK value added tax of USD 72 million.

46 CSS(E)L's Subsidiaries and Associates

In accordance with Section 409 of the Companies Act 2006 a list of CSS(E)L's subsidiaries and associates, the country of

incorporation and the effective percentage of equity owned at 31 December 2018 is disclosed below.

	Country ¹	Security	Immediate parent	Total (%)
31 December 2018				
Subsidiaries				
Credit Suisse Client Nominees (UK) Limited	United Kingdom	Ordinary Shares	CSS(E)L	100
Credit Suisse First Boston Trustees Limited	United Kingdom	Ordinary Shares	CSS(E)L	100
Credit Suisse Guernsey AF Trust	Guernsey	Beneficiary	CSS(E)L	100
CSS(E)L Guernsey Bare Trust	Guernsey	Beneficiary	CSS(E)L	100
Redwood Guernsey I Funding Trust	Guernsey	Beneficiary	CSS(E)L	100
Redwood Guernsey I Master Trust	Guernsey	Beneficiary	CSS(E)L	100
Redwood Guernsey I SPIA Trust	Guernsey	Beneficiary	CSS(E)L	100
Redwood Guernsey II Funding Trust	Guernsey	Beneficiary	CSS(E)L	100
Redwood Guernsey II Master Trust	Guernsey	Beneficiary	CSS(E)L	100
Redwood Guernsey II SPIA Trust	Guernsey	Beneficiary	CSS(E)L	100
Sail Guernsey I Funding Trust	Guernsey	Beneficiary	CSS(E)L	100
Sail Guernsey I Master Trust	Guernsey	Beneficiary	CSS(E)L	100
Sail Guernsey I SPIA Trust	Guernsey	Beneficiary	CSS(E)L	100
Sail Guernsey II Funding Trust	Guernsey	Beneficiary	CSS(E)L	100
Sail Guernsey II Master Trust	Guernsey	Beneficiary	CSS(E)L	100
Sail Guernsey II SPIA Trust	Guernsey	Beneficiary	CSS(E)L	100

¹ Detailed Registered Office Address mentioned in Note-46 CSS(E)L's Subsidiaries and Associates

CSG is the ultimate parent for the above subsidiaries.

31 December 2018

Subsidiaries	Country	Registered Office
Credit Suisse Client Nominees (UK) Limited	United Kingdom	One Cabot Square London E14 4QJ -United Kingdom
Credit Suisse First Boston Trustees Limited	United Kingdom	One Cabot Square London E14 4QJ -United Kingdom
Credit Suisse Guernsey AF Trust	Guernsey	Primary MasterBareAF PTC Limited Third Floor, La Plaiderie Chambers La Plaiderie, St. Peter Port Guernsey GY1 1 WG -Guernsey
CSS(E)L Guernsey Bare Trust	Guernsey	Primary MasterBareAF PTC Limited Third Floor, La Plaiderie Chambers La Plaiderie, St. Peter Port Guernsey GY1 1 WG -Guernsey
Redwood Guernsey I Funding Trust	Guernsey	Third Floor, La Plaiderie Chambers La Plaiderie St Peter Port GY1 1WG -Guernsey
Redwood Guernsey I Master Trust	Guernsey	Third Floor, La Plaiderie Chambers La Plaiderie St Peter Port GY1 1WG -Guernsey
Redwood Guernsey I SPIA Trust	Guernsey	Third Floor, La Plaiderie Chambers La Plaiderie St Peter Port GY1 1WG -Guernsey
Redwood Guernsey II Funding Trust	Guernsey	Third Floor, La Plaiderie Chambers La Plaiderie St Peter Port GY1 1WG -Guernsey
Redwood Guernsey II Master Trust	Guernsey	Third Floor, La Plaiderie Chambers La Plaiderie St Peter Port GY1 1WG -Guernsey
Redwood Guernsey II SPIA Trust	Guernsey	Third Floor, La Plaiderie Chambers La Plaiderie St Peter Port GY1 1WG -Guernsey
Sail Guernsey I Funding Trust	Guernsey	Third Floor, La Plaiderie Chambers La Plaiderie St Peter Port GY1 1WG -Guernsey
Sail Guernsey I Master Trust	Guernsey	Third Floor, La Plaiderie Chambers La Plaiderie St Peter Port GY1 1WG -Guernsey
Sail Guernsey I SPIA Trust	Guernsey	Third Floor, La Plaiderie Chambers La Plaiderie St Peter Port GY1 1WG -Guernsey
Sail Guernsey II Funding Trust	Guernsey	Third Floor, La Plaiderie Chambers La Plaiderie St Peter Port GY1 1WG -Guernsey
Sail Guernsey II Master Trust	Guernsey	Third Floor, La Plaiderie Chambers La Plaiderie St Peter Port GY1 1WG -Guernsey
Sail Guernsey II SPIA Trust	Guernsey	Third Floor, La Plaiderie Chambers La Plaiderie St Peter Port GY1 1WG -Guernsey



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