

Credit Suisse International

# Annual Report 2014





# Credit Suisse International

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## Board of Directors as at 30 March 2015

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Noreen Doyle (Chair and Independent Non-Executive)

Gael de Boissard (CEO)

Paul Ingram

Jason Forrester

Richard Thornburgh (Independent Non-Executive)

Stephen Kingsley (Independent Non-Executive)

## Company Secretary

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Paul E Hare

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Company Registration Number

2500199

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# Strategic Report for the Year ended 31 December 2014

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

## BUSINESS REVIEW

### Profile

Credit Suisse International (CSi) is a bank domiciled in the United Kingdom. CSi together with its subsidiaries is referred to as the 'CSi group'. The Financial Statements are presented in United States Dollars ('USD'), which is the functional currency of the Bank.

CSi is a global market leader in over-the-counter ('OTC') derivative products from the standpoints of counterparty service, innovation, product range and geographic scope of operations. CSi offers a range of interest rate, currency, equity, commodity and credit-related OTC derivatives and certain securitised products. CSi's business is primarily client-driven, focusing on transactions that address the broad financing, risk management and investment concerns of its worldwide client base. CSi enters into derivative contracts in the normal course of business for market-making, positioning and arbitrage purposes, as well as for risk management needs, including mitigation of interest rate, foreign currency and credit risk.

CSi is an unlimited company and an indirect wholly owned subsidiary of Credit Suisse Group AG ('CSG'). CSi is authorised under the amended Financial Services and Markets Act 2000 by the Prudential Regulation Authority ('PRA') and regulated by the Financial Conduct Authority ('FCA') and the PRA.

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](http://www.credit-suisse.com).

As a leading financial services provider, CS group is committed to delivering its combined financial experience and expertise to corporate, institutional and government clients and high-net-worth individuals worldwide, as well as to retail clients in Switzerland. CS group serves its diverse clients through two divisions, Investment Banking and Private Banking & Wealth Management, which co-operate closely to provide holistic financial solutions based on innovative products and specially tailored advice. Founded in 1856, CS group has a truly global reach today, with operations in over 50 countries and a team of more than 45,800 employees from approximately 150 different nations.

### Management and governance

A number of management and governance changes have been effected. Jason Forrester and Paul Ingram were appointed as Directors of the CSi group's Board. Chris Carpmael, Eric Varvel, Michael Hodgson and Gary Bullock have resigned. The Board approved the formation of an advisory Board Remuneration Committee, comprising of Non-Executive Directors and chaired by Noreen Doyle, on 28 August 2014.

### Principal products/Principal product areas

The CSi group has three principal business divisions which are managed as a part of the Investment Banking Division of CS group:

- The Fixed Income Division ('FID') provides a complete range of derivative products including forward rate agreements, interest rate and currency swaps, interest rate options, bond options, commodities and credit derivatives for the financing, risk management and investment needs of its customers. FID also engages in underwriting, securitising, trading and distributing a broad range of financial instruments in developed and emerging markets including US Treasury and government agency securities, US and foreign investment-grade and high yield corporate bonds, money market instruments, foreign exchange and real estate related assets.
- The Equity Division engages in a broad range of equity activities for investors including sales, trading, brokerage and market making in international equity and equity related securities, options and futures and OTC derivatives.
- The Investment Banking Division ('IBD') includes financial advisory services regarding mergers and acquisitions, origination and distribution of equity and fixed income securities, leveraged finance and private equity investments and, in conjunction with FID and Equities, capital raising services.

Included within the three principal divisions are the Non-strategic units created during 2013 to further accelerate a reduction of capital and costs associated with non-strategic activities and positions and to shift resources to focus on strategic businesses and growth initiatives.

### Economic environment

In 2014 economic conditions improved in the US but growth remained challenging in the Eurozone. In the UK, the annual rate of Consumer Price Index ('CPI') inflation decreased to 0.5% at the end of December 2014, compared to 2.0% at the end of 2013. The Bank of England ('BOE') maintained interest rates at 0.5% throughout the year and the stock of asset purchases financed by the issuance of central bank reserves at GBP 375 billion. The unemployment rate dropped to 5.8% at the end of December 2014 from 7.1% at the end of 2013. However, low average wage inflation was cited as a growing concern for monetary policymakers and is likely to have a bearing on the timing of any interest rate decision. UK Gross Domestic Product ('GDP') grew by 0.5%. GDP was 2.7% higher in Q4 2014 compared with the same quarter a year ago.

Economic growth in the Eurozone remained weak, impacted by rising uncertainty and geopolitical tensions weighing on the economies. While a recession was avoided in Europe, the risk of deflation in certain Eurozone countries increased sharply. The European Central Bank ('ECB') cut its policy rate to 0.05%, introduced a negative deposit rate and purchase programme for private sector

assets, and injected a new liquidity into the banking system. In December 2014, the Swiss National Bank ('SNB') announced a negative interest rate in order to make Swiss franc deposits less attractive. On January 15, 2015, the SNB decided to discontinue the minimum exchange rate of CHF 1.20 per euro and to lower the interest rate by 50 basis points to (0.75)% on sight deposits that exceed a certain threshold. It also decreased the target range for the three-month Swiss franc LIBOR. These decisions led to a significant strengthening of the Swiss franc against all major currencies and a decrease in Swiss franc interest rates.

Most fixed income assets delivered a weak performance in 2014. In credit markets, credit spreads widened in the second half of the year. Easing of monetary policy in the Eurozone helped to weaken the Euro against the US dollar. The Credit Suisse commodities benchmark decreased 26% for the year, mainly due to energy prices. Gold markets had a less turbulent year, but prices ended 1% lower due to lack of investor demand. European equities faced a less favourable economic environment and uncertainties surrounding the anticipated ECB actions also impacted them. Global equity underwriting volumes increased 18%, driven by a 62% increase in Europe, while global debt underwriting volumes decreased slightly compared to 2013.

### Key performance indicators ('KPIs')

The Bank uses profitability and Return on Capital as the primary KPIs to manage the financial position of the Bank. In a changing regulatory environment and with the increasing cost of capital these KPIs are critical to the successful management of the business to achieve the Bank's objectives. Profitability and Risk Weighted Assets ('RWA') are reviewed at the business line level to promote a profitable and capital efficient business is maintained and developed; capital intensive businesses are closely monitored and reviewed.

Earnings	2014	2013
Net loss after tax (USD millions)	(995)	(539)
Capital & Consolidated Statement of Financial Position		
Tier 1 capital (USD millions)	22,364	24,632
Return on Tier 1 capital	(4.4)%	(2.2)%
Total Assets (USD millions)	548,137	515,733
Total Asset growth/(reduction)	6.3%	(24.9)%
Return on Total Assets	(0.2)%	(0.1)%

### Performance

#### Consolidated Statement of Income

For the year ended 2014, the CSi group reported a net loss attributable to shareholders of USD 995 million (2013: USD 539 million loss). Net revenues amounted to USD 1,144 million (2013: USD 1,654 million). After operating expenses, the CSi group reported a loss before taxes of USD 407 million (2013: USD 59 million loss). Income tax expense for the year ended 31 December 2014 was USD 588 million (2013: USD 480 million). Included in the income tax expense is an amount of USD 676 million as a result of an impairment of the deferred tax asset ('DTA'), following an assessment by management as to whether the DTA can be realised.

Net revenues were negatively impacted by the recognition of funding valuation adjustments ('FVA') following adoption of the

application of FVA on uncollateralised derivatives in the fourth quarter of 2014. FVA also applies to collateralised derivatives where the collateral received cannot be used for funding purposes. The banking industry has increasingly moved towards this valuation methodology, which accounts for the funding cost of the uncollateralised derivatives at their present value rather than accruing for these costs over the life of the derivatives. The one-time transitional charge at adoption was USD 256 million.

Net revenues were further adversely impacted by losses of USD 360 million (2013: USD 90 million gain) in the Non-strategic units (which includes USD 178 million impact of FVA on these businesses). The losses in 2014 are due to a focused management strategy to wind down these businesses and reduce associated RWA charges. Included in these losses is the impact of CSi exiting the Commodities business and the impact of the novation of a portfolio of swaps with exposure to Greece to a third party. In addition, Credit Suisse announced the sale of Prime Fund Services ('PFS'), which in relation to CSi comprises the PFS business held within the Dublin Branch of the CSi group, to BNP Paribas. The transaction is expected to close in 2015.

Over and above the impacts of FVA and non-strategic units, 2014 was a challenging year for the Fixed Income businesses in particular, resulting in a decline in Fixed Income revenues overall of 41% in the year 2014 to USD 907 million. In the Emerging Markets business there were fewer new deals in 2014 as compared to 2013. In the Global Macro Products business revenues declined, driven by a slowdown in the global swaps business due to increased regulation and a decrease in client flows as markets remained uncertain throughout the Eurozone with market participants expecting the ECB rate reduction.

Equity revenues were less impacted, declining 10% in the year 2014 to USD 809 million. This was mainly driven by a slowdown in client activity and subdued market conditions affecting both Asia and Europe, resulting in a reduction in new trade activity and declining commissions.

Investment Banking revenues increased by 42% to USD 244 million for the year, driven by gains due to higher volumes in the structured equity and structured fixed income origination businesses.

Net revenues were positively impacted by the following items not included in the divisional revenues above:

- Reduced revenue sharing expenses for the period of USD 441 million (2013: USD 506 million). This relates to revenue sharing agreements between the CSi group and other CS group companies.
- Reduced treasury funding charges of USD 319 million (2013: USD 448 million). This primarily comprises excess funding charges on long term financing versus overnight funding rates, which are only allocated out to the businesses at the CS group level. The lower average cost of borrowing has been achieved through the restructure of the funding profile of the Bank.

The CSi group's operating expenses were USD 1,551 million (2013: USD 1,713 million). Compensation costs have decreased by USD 88 million to USD 341 million (2013: USD 429 million) in the year 2014. The decrease is primarily due to a decrease in



expenses in relation to deferred compensation awards, and payroll tax associated with the awards.

The various changes in the Swiss market in relation to foreign exchange and negative interest rates did not and will not have a detrimental impact to the earnings of the Bank.

### Consolidated Statement of Financial Position

As at 31 December 2014 the CSi group had total assets of USD 548 billion (31 December 2013: USD 516 billion).

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:

- An increase of USD 13 billion in securities purchased under resale agreements and securities borrowing transactions of predominantly high quality liquid assets, and associated decrease of USD 12 billion in cash and due from banks used to fund securities purchased under resale agreements and securities borrowing transactions.
- An increase of USD 4 billion long term debt as a result of an increase in senior debt from a CS group company.

From an underlying business perspective:

- Trading financial assets at fair value through profit or loss have increased by USD 27 billion. The increase was primarily due to mark to market moves on interest rate derivative products. There has similarly been an increase of USD 33 billion in trading financial liabilities at fair value through profit or loss.
- Associated with this, Other assets have increased by USD 9 billion to USD 49 billion (31 December 2013: 40 billion), due to an increase in the cash collateral provided to counterparties in relation to derivative exposures.

Total shareholder's equity has reduced to USD 24 billion (31 December 2013: USD 25 billion), as a result of the net loss for year ended 31 December 2014.

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 were USD 11.6 billion as at 31 December 2014 (31 December 2013: USD 12.5 billion), which was equivalent to 2.12% of total assets. The decrease in Level 3 assets was due to cash settlements and the disposal of Level 3 positions, and due to transfers out of Level 3 as a result of increasing observability and quotes on Level 3 loans.

Total Level 3 liabilities were USD 11.4 billion as at 31 December 2014 (31 December 2013: USD 11.4 billion), which was equivalent to 2.18% of total liabilities.

Fair Value disclosures are presented in Note 36 – Financial Instruments.

### Principal Risks and Uncertainties

The Bank faces a variety of risks that are substantial and inherent in its businesses including Market risk, Liquidity risk, Currency risk, Credit risk, Country risk, Legal and Regulatory risk, Operational

risk, Conduct risk, and Reputational risk. These are detailed in Note 39 – Financial Instruments Risk Position.

There have been significant changes in the way large financial service institutions are regulated over recent years. There are increased prudential requirements as well as stricter regulations on the financial institutions in general and many of the reforms being discussed in wider forums will change the way in which financial services is structured affecting the CSi group business model. In particular, the EU Bank Recovery and Resolution Directive ('BRRD') entered into force on 2 July 2014 and has been implemented in the UK through the Banking Act 2013 (and related statutory instruments). Its aim is to provide national 'resolution authorities' (including the Bank of England) with a very broad set of powers and tools to address banking crises pre-emptively in order to safeguard financial stability and minimize taxpayers' exposure to losses. If these powers were to be exercised in respect of CSi, this could result in a material adverse effect on the rights or interests of CSi's creditors and/or could have a material adverse effect on the market price of securities issued by CSi.

The liquidity coverage ratio ('LCR') and the net stable funding ratio ('NSFR') have been introduced by the Basel Committee to measure the liquidity risk and will be implemented in 2015 and 2018 respectively.

### Capital Resources

The Bank closely monitors its capital and liquidity position on a continuing basis to ensure ongoing stability and support of its business activities. This monitoring takes account of the requirements of the current regime and any forthcoming changes to the capital framework. CS group continues to provide confirmation that it will ensure that the Bank is able to meet its debt obligations and maintain a sound financial position over the foreseeable future.

The Bank is required at all times to monitor and demonstrate compliance with the relevant regulatory capital requirements of the PRA. The Bank has put in place processes and controls to monitor and manage the Bank's capital adequacy. No breaches were reported to the PRA during the period.

Changes in senior and subordinated debt are set out in Note 26 – Long Term Debt. Changes in capital are set out in Note 28 – Share Capital and Share Premium.

### Outlook

In 2014, CSi continued to make progress in executing its client-focused, capital-efficient strategy to meet emerging client needs and regulatory trends. CSi is progressing towards achieving specific goals to reduce its cost base and strengthen its capital position, and has operated under the Basel III capital framework, as implemented in the EU, since January 2014. CSi has further optimised its business footprint, continuing to shift resources to focus on growth in higher returning businesses, and reducing costs and capital in the non-strategic portfolio. As a result of this progress, CSi believes that it is better positioned to perform in a challenging market environment and compete in its chosen businesses and markets around the world.

CSi remains committed to offering its clients a broad spectrum of equities, fixed income, and investment banking advisory products and services. CSi is focused on businesses in which the

bank has a competitive advantage and is able to operate profitably with an attractive return on capital in the new regulatory environment. While the industry still faces significant adjustments to new regulatory requirements, CSi has significantly evolved its business model to one that is compliant with the Basel III regulatory framework. CSi will continue to invest in its market-leading, high-returning businesses while optimising its risk weighted assets and cost base to further improve returns.

In light of recent developments such as heightened regulatory focus on leverage, conduct risk, additional capital resource requirements under Basel III, and the migration of markets towards cleared and electronic trading, CSi is evolving towards more simplified and primarily exchange-cleared products in derivatives and reduced capital intensive structured activity. CSi will additionally continue to focus on cost initiatives, in a challenging market environment, while still being positioned to take advantage of favourable market opportunities when they arise. Looking ahead, CSi believes that its client-focused and cost-and-capital-efficient strategy will allow the delivery of strong returns. CSi continues to refocus resources on opportunities in high-returning businesses and to reduce the impact of the Non-strategic units.

## Corporate Governance

### Internal Control and Financial Reporting

The directors are ultimately responsible for the effectiveness of internal control in the CSi 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 for that provided to external users. Such procedures are designed to manage rather than eliminate the risk of failure to achieve business objectives and can only provide reasonable and not absolute assurance against material misstatement, errors, losses or fraud.

The key procedures that have been established are designed to provide effective internal control within the CSi group. Such procedures for the ongoing identification, evaluation and management of the significant risks faced by the CSi group have been in place throughout the year and up to 30 March 2015, the date of approval of the Credit Suisse International Annual Report for 2014. Key risks identified by the directors are formally reviewed and assessed at least once a year by the Board, in addition to which key business risks are identified, evaluated and managed by operating management on an ongoing basis by means of procedures such as credit, market, operational and other authorisation limits, and segregation of duties.

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

There are well-established budgeting procedures in place and reports are presented regularly to the Board detailing the

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

### Committees

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

#### Credit Suisse International Audit Committee

The purpose of the Committee is to:

- review the Internal Audit Plan to ensure its adequacy, as it pertains to the CSi group;
- review systems of accounting, internal controls, and compliance with regulatory and legal requirements, and on litigation matters;
- review quality and accuracy of financial reporting to external bodies;
- review other Internal Audit, regulatory examination reports and External Audit reports and management letters;
- review with management and jointly with the Credit Suisse International Risk Committee, significant operational risk matters involving business processes and system infrastructure;
- review with management and jointly with the Credit Suisse International Risk Committee, significant matters of potential reputational risk;
- review the Annual Financial Statements on behalf of the Board; and
- report significant issues to the Board.

The Audit Committee members are Stephen Kingsley (Chair), Noreen Doyle and Richard Thornburgh.

In reviewing the Credit Suisse International Annual Report 2014, the Audit Committee considered critical accounting estimates and judgements including the valuation of Level 3 assets and liabilities, and the recoverability of the deferred tax asset. The Audit Committee additionally considered the projected capital requirements in the next 12 months and, in this context, the continued access to appropriate funding to maintain adequate capital and liquidity positions.

#### Credit Suisse International Risk Committee

The purpose of the Committee is to:

- review and assess the integrity and adequacy of the risk management function of CSi group including processes and organisational structures;
- review and assess the CSi group's credit, market and operational risk including any large exposures;
- review the Internal Capital Adequacy Assessment Process ('ICAAP');
- review with management and jointly with the Credit Suisse International Audit Committee, significant operational risk matters involving business processes and system infrastructure;

- review and assess the adequacy of the risk measurement methodologies including the Risk Appetite framework;
- review other major risk concentration as deemed appropriate;
- monitor the adequacy of the business continuity program;
- review with management and jointly with the Credit Suisse International Audit Committee, significant matters of potential reputational risk;
- review and advise on risk adjustments to remuneration schemes; and
- report significant issues to the Board.

The Risk Committee members are Richard Thornburgh (Chair), Noreen Doyle and Stephen Kingsley.

#### Credit Suisse International Nomination Committee

The purpose of the Committee is to:

- engage a broad set of qualities and competences when recruiting members to the Board of Directors ('BoD') and put in place a policy promoting diversity on the BoD;
- identify and recommend for approval, by the Company shareholder (Credit Suisse group AG / Credit Suisse AG) candidates to fill BoD vacancies, having evaluated the balance of knowledge, skills, diversity and experience of the BoD;
- make recommendations to the BoD concerning the role of chairman and membership of the board committees, in consultation with the chairmen of those committees;
- prepare a description of the roles and capabilities for a particular appointment, and assess the time commitment required;
- decide on a target for the representation of the under-represented gender in the BoD and prepare a policy on how to increase the under-represented gender in the BoD to meet that target;
- periodically, and at least annually, assess the structure, size, composition and performance of the BoD and make recommendations to the BoD with regard to any changes;
- periodically, and at least annually, assess the knowledge, skills and experience of individual members of the BoD and of the BoD collectively, and report this to the BoD;
- periodically review the policy of the BoD for selection and appointment of senior management and review with the CEO the appointment of senior management; and
- in performing its duties and to the extent possible on an ongoing basis, take account of the need to ensure that the BoD'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 Credit Suisse International Nomination Committee members are Noreen Doyle (Chair), Stephen Kingsley and Richard Thornburgh.

#### Credit Suisse International advisory Board Remuneration Committee

The purpose of the Committee is to:

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

The Credit Suisse International advisory Board Remuneration Committee members are Noreen Doyle (Chair), Stephen Kingsley and Richard Thornburgh.

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

#### Credit Suisse International Disclosure Committee

The purpose of the Committee is to ensure compliance with the EU Prospectus and Transparency directives in relation to the listing by the Bank of debt securities on European exchanges. The Committee reviews and updates the Bank's disclosure document and ongoing disclosure requirements so as to provide investors with all such information as may reasonably be required to make an informed assessment of the Bank as an issuer of debt securities.

## Risk Management

### Overview

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

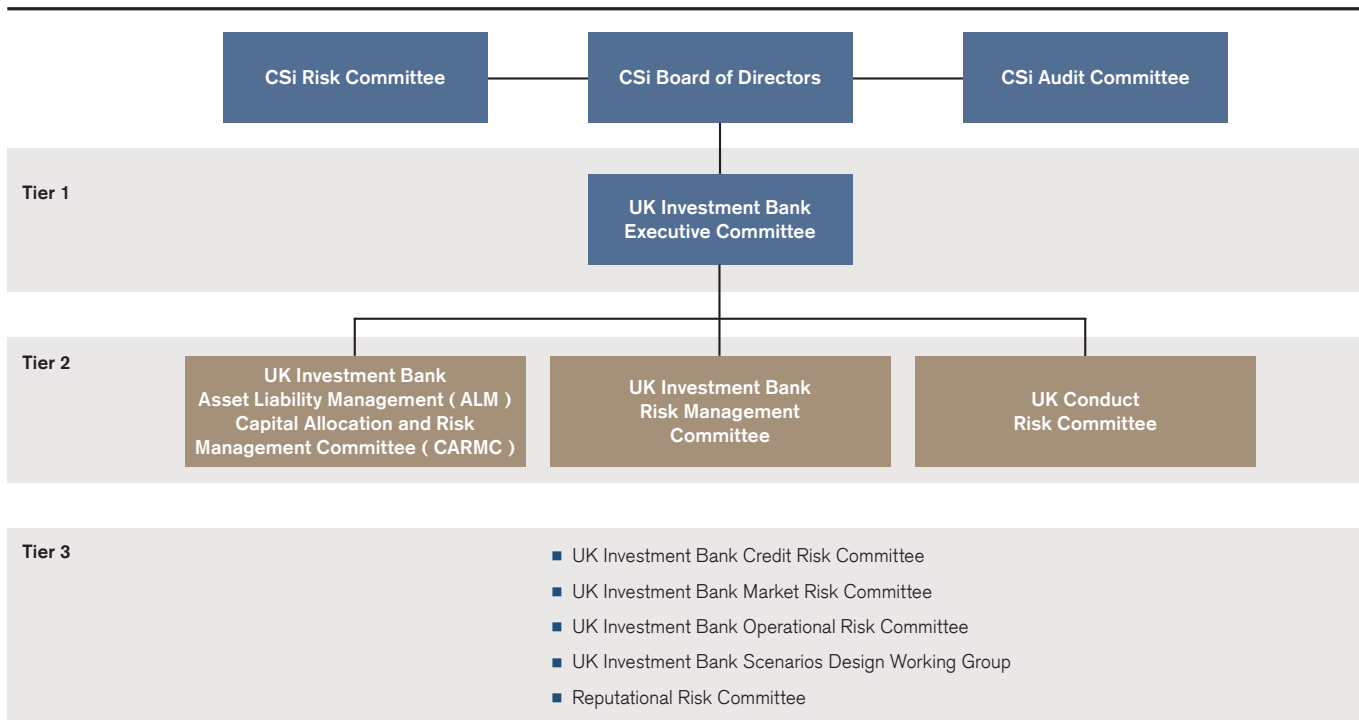
### Risk governance

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

Committees are implemented at a senior management level to support risk management.



## Summary of Key Risk Governance Committees



The key risk committees which support the Board of Directors are:

- UK Investment Bank Executive Committee ('UK IB ExCo'): this is the primary management committee of the entity and is charged with managing all aspects of the Bank including strategy, culture, revenue, risk and control, cost and people.
- UK IB Asset Liability Management ('ALM') Capital Allocation and Risk Management Committee ('CARMC'): responsible for assisting the Board of Directors in providing a robust governance and oversight function with respect to capital, liquidity and funding-related matters in the Bank.
- UK Investment Bank Risk Management Committee ('UK IB RMC'): The Board of Directors set the overall framework for risk appetite. The authority to establish more granular limits within the bounds of its overall risk limits is delegated to the UK IB RMC, which is chaired by the Bank's Chief Risk Officer ('CRO') and consists of senior risk and business managers. The purpose of the UK IB RMC is to:
  - i ensure that proper standards for risk oversight and management are established and operational;
  - ii make recommendations to the Board on risk appetite;
  - iii review the ICAAP; and
  - iv define and establish risk limits for both individual businesses and at the portfolio level within authorities delegated by the Board
- UK Conduct Risk Committee ('UK CRC'): responsible for enabling the Bank to review the effectiveness of the Bank's conduct risk framework and challenge business leaders on the

suitability and effectiveness of the measures and tools used in their businesses to identify, control and mitigate conduct risk. The UK CRC is tasked with sponsoring and reviewing appropriate policies and procedures and monitoring peer group and regulatory statements and developments in the conduct risk space. The UK CRC will consider reports covering conduct risk identification, conduct risk mitigation and conduct risk management information.

The divisional risk management committees are:

- The United Kingdom Investment Bank ('UK IB') Credit Risk Committee, chaired by the Bank's Chief Credit Officer, defines and implements the UK IB Credit Risk Framework. It is responsible for reviewing emerging risks and assessing the impact of any issues that impact the UK IB credit portfolio including counterparty, sector and concentration.
- The UK IB Market Risk Committee, chaired by the Bank's Co-Heads of Market Risk, defines and implements the UKIB Market Risk Framework. It is responsible for reviewing emerging risks and assessing the impact of any issues that impact on the UK IB market risk profile.
- The UK IB Operational Risk Committee, chaired by the Bank's Head of Operational Risk, ensures that the proper standards for operational risk management are established for the UK IB. The committee is responsible for defining and implementing Operational Risk management strategies for the UK entities.

- The UK IB Scenarios Design Working group ('UK IB SDWG'), chaired by the Bank's Head of Enterprise Risk, is responsible for identifying, developing and maintaining appropriate stress scenarios which are relevant for UK entities based on material risk factors.
- The Reputational Risk Committee, co-chaired by the CRO, is responsible for reviewing and approving transactions that are escalated as having potential to have a negative impact on the Bank's reputation.

#### Risk organisation

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

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

The Risk Management department, as of January 2015, comprises:

- Market Risk Management, including market and liquidity risk;
- Credit Risk Management;
- Operational Risk Management; and
- Enterprise Risk Management.

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

- The Market Risk Management ('MRM') department is responsible for assessing and monitoring the market and liquidity risk profiles of the Bank and recommends corrective action where necessary;
- Credit Risk Management ('CRM') is responsible for approving credit limits, monitoring, and managing individual exposures, and assessing and managing the quality of credit portfolios and allowances;
- Operational Risk Management ('ORM') is responsible for the identification, assessment and monitoring of operational risks; and
- Enterprise Risk Management ('ERM') is responsible for covering cross-divisional and cross-functional approaches towards identifying and measuring risks as well as defining and managing risk appetite levels.

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

#### Risk limits

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

Within the bounds of the overall risk appetite of the Bank, as defined by the limits set by the Board, the Bank CRO is the nominated executive who is responsible for implementing a limit framework with the aim of ensuring that the risk profile remains within the Board's risk appetite. The Bank 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') or scenario analysis, although they also include exposure, risk sensitivities and other metrics. 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 binding and generally set to ensure that any meaningful increase in risk exposures is promptly escalated to more senior levels of management. In addition, the Bank 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 (bank-wide statements linked to risk and control indicators) terms.

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

The Bank's financial risk management objectives and policies and the exposure of the CSi group to market risk, credit risk, liquidity risk and currency risk are outlined in Note 39 – Financial Instruments Risk Position.

#### Selected European credit risk exposures

CSi's exposure to certain European countries is summarised in the table below. 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. Net exposures include the impact of risk mitigation such as Credit Default Swaps ('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.

Credit risk exposure to these European countries is managed as part of the overall CSi and CS group risk management process. This management includes the use of country limits, and the performance of scenario analyses on a regular basis including analyses on indirect sovereign credit risk exposures arising from exposures to selected European financial institutions.

31 December 2014 (USD Billions)	Sovereign		Financial Institutions		Corporate	
	Gross Exposure	Net Exposure	Gross Exposure	Net Exposure	Gross Exposure	Net Exposure
Greece	0.0	0.0	0.1	0.0	0.0	0.0
Ireland	0.0	0.0	1.0	0.7	0.1	0.0
Italy	4.8	0.5	1.9	0.7	0.1	0.0
Portugal	0.2	0.0	0.1	0.0	0.1	0.1
Spain	0.0	0.0	1.0	0.3	0.4	0.3
Russia	0.2	0.1	1.2	0.3	0.3	0.1
Ukraine	-	-	-	-	0.0	0.0
<b>Total</b>	<b>5.2</b>	<b>0.6</b>	<b>5.3</b>	<b>2.0</b>	<b>1.0</b>	<b>0.5</b>

### Corporate Employee Policy

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

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

The CS group currently supports more than 40 internal employee networks worldwide that serve as a platform for the exchange of knowledge and experience, fostering mutual understanding and helping to strengthen corporate culture. The networks within the Bank, which are run by employees on a voluntary basis, are dedicated to addressing the concerns of women, families, Lesbian, Gay, Bisexual and Transgender ('LGBT') individuals, the older and younger generations, and employees from various ethnic backgrounds.

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

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

The Role of the Committee is:

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

By Order of the Board



Paul E Hare  
Company Secretary

One Cabot Square  
London E14 4QJ  
30 March 2015

# Directors' Report for the Year ended 31 December 2014

## International Financial Reporting Standards

The CSi group and Bank 2014 Financial Statements have been prepared in accordance with International Financial Reporting Standards ('IFRS') as adopted for use in the European Union ('EU').

The Financial Statements were authorised for issue by the directors on 30 March 2015.

## Dividends

No dividends were paid or are proposed for the year ended 31 December 2014 (2013: 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 2013 and up to the date of this report are as follows:

### Appointment

Jason Forrester	02 May 2014
Christopher Williams	12 June 2014
Paul Ingram	20 March 2015

### Resignation

Eric Varvel	06 November 2014
Chris Carpmael	01 January 2014
Michael Hodgson	31 December 2014
Gary Bullock	31 December 2014
Christopher Williams	06 March 2015

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 Bank. Directors of the Bank benefited from qualifying third party indemnity provisions in place during the financial year and at the date of this report.

## Statement of directors' responsibilities

The Directors are responsible for preparing the Annual Report of the CSi group and the Bank in accordance with applicable law and regulations.

Company law requires the directors to prepare group and parent company financial statements for each financial year. Under that law they are required to prepare the group financial statements in accordance with IFRS as adopted by the EU and applicable law and have elected to prepare the parent company financial statements on the same basis.

Under company law the Directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the CSi group and Bank and of their profit or loss for that period. In preparing each of the CSi group and Bank financial statements, the Directors are required to:

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

The Directors confirm to the best of their knowledge:

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

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

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

### **Risk and Capital**

The way in which these risks are managed is detailed in the Strategic Report, and the risks are detailed in Note 39 – Financial Instruments Risk Position.

Changes made to the capital structure are set out in Note 28 – Share Capital and Share Premium.

### **Disclosure of Information to Auditor**

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

### **Auditor**

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

### **Subsequent Events**

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

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

By Order of the Board



Jason Forrester  
Director

One Cabot Square  
London E14 4QJ  
30 March 2015



# Independent Auditor's Report to the Members of Credit Suisse International

We have audited the financial statements of Credit Suisse International for the year ended 31 December 2014 set out on pages 13 to 128. The financial reporting framework that has been applied in their preparation is applicable law and International Financial Reporting Standards ('IFRSs') as adopted by the EU and, as regards the parent company ('the Bank') financial statements, as applied in accordance with the provisions of the Companies Act 2006.

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

## Respective responsibilities of directors and auditors

As explained more fully in the Directors' Responsibilities Statement set out on page 10, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit, and express an opinion on, the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

## Scope of the audit of the financial statements

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

## Opinion on financial statements

In our opinion:

- the financial statements give a true and fair view of the state of the CSi group's and of the Bank's affairs as at 31 December 2014 and of the CSi group's loss for the year then ended;
- the CSi group financial statements have been properly prepared in accordance with IFRSs as adopted by the EU;
- the Bank 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.

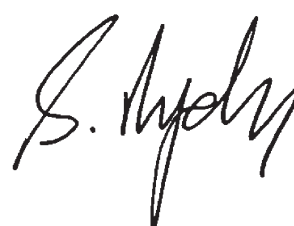
## Opinion on other matters prescribed by the Companies Act 2006

In our opinion the information given in the Strategic Report and the Directors' Report for the financial year for which the financial statements are prepared is consistent with the financial statements; and information given in the Corporate Governance Statement set out on pages 5 to 9 with respect to internal control and risk management systems in relation to financial reporting processes is consistent with the financial statements.

## Matters on which we are required to report by exception

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

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



Simon Ryder  
(Senior Statutory Auditor)

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

# Financial Statements for the year ended 31 December 2014

## Consolidated Statement of Income for the Year ended 31 December 2014

	Reference to note	2014	2013
<b>Consolidated statement of income (USD million)</b>			
Interest income	5	786	770
Interest expense	5	(661)	(849)
Net interest income/(expense)		125	(79)
Commission and fee income	6	130	193
Commission and fee expense	6	(115)	(138)
Net commission and fee income		15	55
Release of provision for credit losses	7	8	7
Net gains from financial assets/liabilities at fair value through profit or loss	8	1,416	2,139
Other revenues	9	(420)	(468)
<b>Net revenues</b>		<b>1,144</b>	<b>1,654</b>
Compensation and benefits	10	(341)	(429)
General, administrative and trading expenses	11	(1,210)	(1,284)
<b>Total operating expenses</b>		<b>(1,551)</b>	<b>(1,713)</b>
<b>Loss before taxes</b>		<b>(407)</b>	<b>(59)</b>
Income tax expense	12	(588)	(480)
<b>Net loss</b>		<b>(995)</b>	<b>(539)</b>
Attributable to Credit Suisse International shareholders		(995)	(539)

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

	Reference to note	2014	2013
<b>Statement of Comprehensive Income (USD million)</b>			
<b>Net loss</b>		<b>(995)</b>	<b>(539)</b>
Cash flow hedges – effective portion of changes in fair value	27	(4)	–
Cash flow hedges – reclassified to profit or loss		–	–
<b>Total items that may be reclassified to net income</b>		<b>(4)</b>	–
<b>Other comprehensive income/(loss), net of tax</b>		<b>(4)</b>	–
<b>Total comprehensive income</b>		<b>(999)</b>	<b>(539)</b>
Attributable to Credit Suisse International shareholders		(999)	(539)

All losses for both 2014 and 2013 are from continuing operations.

The Bank's loss after tax was USD 1,049 million for the year ended 31 December 2014 (2013: Loss USD 536 million). As

permitted by s408 of the Companies Act 2006, no separate income statement is presented in respect of the Bank.

The notes on pages 20 to 128 form an integral part of the Financial Statements.

## Consolidated Statement of Financial Position as at 31 December 2014

	Reference to note	2014	2013 <sup>1</sup>
<b>Assets (USD million)</b>			
Cash and due from banks		15,409	27,280
Interest-bearing deposits with banks		165	285
Securities purchased under resale agreements and securities borrowing transactions	14	33,742	21,106
Trading financial assets at fair value through profit or loss	15	428,160	400,915
of which positive market values from derivative instruments	15	389,218	355,251
Financial assets designated at fair value through profit or loss	16	16,445	19,808
Other loans and receivables	17	3,334	4,470
Other investments		28	34
Investment property	18	426	466
Current tax assets		69	65
Deferred tax assets	13	386	973
Other assets	19	49,405	39,673
Property and equipment	21	204	224
Intangible assets	22	364	434
<b>Total assets</b>		<b>548,137</b>	<b>515,733</b>
<b>Liabilities and shareholders' equity (USD million)</b>			
Deposits	23	4,464	5,332
Securities sold under repurchase agreements and securities lending transactions	14	8,650	4,444
Trading financial liabilities at fair value through profit or loss	15	405,889	373,349
of which negative market values from derivative instruments	15	396,949	364,892
Financial liabilities designated at fair value through profit or loss	16	27,340	31,073
Short term borrowings	24	17,267	15,624
Other liabilities	19	35,511	39,426
Provisions	25	14	14
Long term debt	26	24,973	21,443
<b>Total liabilities</b>		<b>524,108</b>	<b>490,705</b>
<b>Shareholders' equity</b>			
Share capital	28	13,108	13,108
Share premium	28	12,699	12,699
Retained earnings		(1,774)	(779)
Accumulated other comprehensive income	27	(4)	–
<b>Total shareholders' equity</b>		<b>24,029</b>	<b>25,028</b>
<b>Total liabilities and equity</b>		<b>548,137</b>	<b>515,733</b>

<sup>1</sup> On 1 January 2014, CSI group adopted amendments to IAS 32 "Offsetting Financial Assets and Financial Liabilities" (IAS 32). Comparative information has been restated accordingly (See Note 2).

Approved by the Board of Directors on 30 March 2015 and signed  
on its behalf by:



Jason Forrester  
Director

## Bank Statement of Financial Position as at 31 December 2014

	Reference to note	2014	2013 <sup>1</sup>
<b>Assets (USD million)</b>			
Cash and due from banks		15,145	27,117
Interest-bearing deposits with banks		165	285
Securities purchased under resale agreements and securities borrowing transactions	14	33,742	21,106
Trading financial assets at fair value through profit or loss	15	428,642	400,931
of which positive market values from derivative instruments	15	389,373	355,643
Financial assets designated at fair value through profit or loss	16	16,445	19,808
Other loans and receivables	17	3,334	4,470
Current tax assets		69	65
Deferred tax assets	13	386	973
Other assets	19	49,421	39,661
Investments in subsidiary undertakings		10	10
Other investments		28	34
Property and equipment	21	204	224
Intangible assets	22	364	434
<b>Total assets</b>		<b>547,955</b>	<b>515,118</b>
<b>Liabilities and shareholders' equity (USD million)</b>			
Deposits	23	4,464	5,332
Securities sold under repurchase agreements and securities lending transactions	14	8,650	4,444
Trading financial liabilities at fair value through profit or loss	15	406,041	373,660
of which negative market values from derivative instruments	15	397,101	365,205
Financial liabilities designated at fair value through profit or loss	16	27,028	30,139
Short term borrowings	24	17,267	15,624
Other liabilities	19	35,522	39,410
Provisions	25	14	14
Long term debt	26	24,981	21,454
<b>Total liabilities</b>		<b>523,967</b>	<b>490,077</b>
<b>Shareholders' equity</b>			
Share capital	28	13,108	13,108
Share premium	28	12,699	12,699
Retained earnings		(1,815)	(766)
Accumulated other comprehensive income	27	(4)	–
<b>Total shareholders' equity</b>		<b>23,988</b>	<b>25,041</b>
<b>Total liabilities and shareholders' equity</b>		<b>547,955</b>	<b>515,118</b>

<sup>1</sup> On 1 January 2014, CSi group adopted amendments to IAS 32 "Offsetting Financial Assets and Financial Liabilities" (IAS 32). Comparative information has been restated accordingly (See Note 2).

Approved by the Board of Directors on 30 March 2015 and signed  
on its behalf by:



Jason Forrester  
Director

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

	Share Capital	Share Premium	Retained earnings	AOCI/Non Controlling Interest	Total
<b>Consolidated statement of changes in equity (USD million)</b>					
<b>Balance at 1 January 2014</b>	<b>13,108</b>	<b>12,699</b>	<b>(779)</b>	<b>-</b>	<b>25,028</b>
Loss for the period	-	-	(995)	-	(995)
Cash flow hedges – effective portion of changes in fair value	-	-	-	(4)	(4)
Subsidiaries sold in the year	-	-	-	-	-
<b>Total comprehensive loss for the period</b>	<b>-</b>	<b>-</b>	<b>(995)</b>	<b>(4)</b>	<b>(999)</b>
Conversion of participating shares to ordinary shares	(13,108)	-	-	-	(13,108)
Conversion of participating shares to ordinary shares	13,108	-	-	-	13,108
<b>Balance at 31 December 2014</b>	<b>13,108</b>	<b>12,699</b>	<b>(1,774)</b>	<b>(4)</b>	<b>24,029</b>
<b>Consolidated statement of changes in equity (USD million)</b>					
<b>Balance at 1 January 2013</b>	<b>3,108</b>	<b>12,699</b>	<b>(240)</b>	<b>22</b>	<b>15,589</b>
Loss for the period	-	-	(539)	-	(539)
Subsidiaries sold in the year	-	-	-	(22)	(22)
<b>Total comprehensive loss for the period</b>	<b>-</b>	<b>-</b>	<b>(539)</b>	<b>(22)</b>	<b>(539)</b>
Issue of new participating shares	10,000	-	-	-	10,000
<b>Balance at 31 December 2013</b>	<b>13,108</b>	<b>12,699</b>	<b>(779)</b>	<b>-</b>	<b>25,028</b>

There were no dividends paid during 2014 (2013: Nil).

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

	Share Capital	Share Premium	Retained earnings	AOCI/Non Controlling Interest	Total
<b>Bank statement of changes in equity (USD million)</b>					
<b>Balance at 1 January 2014</b>	<b>13,108</b>	<b>12,699</b>	<b>(766)</b>	<b>-</b>	<b>25,041</b>
Loss for the period	-	-	(1,049)	-	(1,049)
Cash flow hedges – effective portion of changes in fair value	-	-	-	(4)	(4)
<b>Total comprehensive loss for the period</b>	<b>-</b>	<b>-</b>	<b>(1,049)</b>	<b>(4)</b>	<b>(1,053)</b>
Conversion of participating shares to ordinary shares	(13,108)	-	-	-	(13,108)
Conversion of participating shares to ordinary shares	13,108	-	-	-	13,108
<b>Balance at 31 December 2014</b>	<b>13,108</b>	<b>12,699</b>	<b>(1,815)</b>	<b>(4)</b>	<b>23,988</b>
<b>Bank statement of changes in equity (USD million)</b>					
<b>Balance at 1 January 2013</b>	<b>3,108</b>	<b>12,699</b>	<b>(230)</b>	<b>-</b>	<b>15,577</b>
Loss for the period	-	-	(536)	-	(536)
<b>Total comprehensive loss for the period</b>	<b>-</b>	<b>-</b>	<b>(536)</b>	<b>-</b>	<b>(536)</b>
Issue of Participating shares	10,000	-	-	-	10,000
<b>Balance at 31 December 2013</b>	<b>13,108</b>	<b>12,699</b>	<b>(766)</b>	<b>-</b>	<b>25,041</b>

There were no dividends paid during 2014 (2013: Nil).



## Consolidated Statement of Cash Flows for the Year ended 31 December 2014

	Reference to notes	2014	2013
<b>Cash flows from operating activities (USD million)</b>			
Loss before tax for the period		(407)	(59)
<b>Adjustments to reconcile net loss to net cash used in operating activities</b>			
Non-cash items included in net loss before tax and other adjustments:		–	–
Impairment, depreciation and amortisation	21,22	265	255
Loss on disposal of property and equipment	21	3	17
Accrued interest on long term debt	5	297	406
(Release of allowance for loan losses)/Provision for credit losses	7	(8)	(7)
Impairment on loan commitments		–	–
Foreign exchange losses		(2,013)	(47)
Depreciation and impairment in investment property	18	21	62
Provisions	25	–	(10)
<b>Cash generated before changes in operating assets and liabilities</b>		<b>(1,842)</b>	<b>617</b>
<b>Net decrease/(increase) in operating assets:</b>			
Securities purchased under resale agreements and securities borrowing transactions		(12,636)	2,405
Trading financial assets at fair value through profit or loss		(27,239)	157,505
Financial assets designated at fair value through profit or loss		3,363	(436)
Other loans and receivables		1,142	9,046
Other assets		(9,712)	14,423
<b>Net decrease/(increase) in operating assets</b>		<b>(45,082)</b>	<b>182,943</b>
<b>Net (decrease)/increase in operating liabilities:</b>			
Deposits		(904)	192
Securities sold under repurchase agreements and securities lending transactions		4,206	162
Trading financial liabilities at fair value through profit or loss		32,540	(153,769)
Financial liabilities designated at fair value through profit or loss		(3,733)	(4,815)
Short term borrowings		1,643	(14,094)
Other liabilities and provisions		(3,893)	(5,425)
Share-based compensation		(22)	43
<b>Net (decrease)/increase in operating liabilities</b>		<b>29,837</b>	<b>(177,706)</b>
Income taxes refund		–	6
Income taxes paid		(10)	(2)
<b>Net cash generated from/(used in) operating activities</b>		<b>(17,097)</b>	<b>5,858</b>
<b>Cash flows from investing activities (USD million)</b>			
Capital expenditures for property, equipment and intangible assets	21,22	(178)	(200)
<b>Net cash used in investing activities</b>		<b>(178)</b>	<b>(200)</b>
<b>Cash flows from financing activities (USD million)</b>			
Issuances of long term debt		10,926	2,739
Repayments of long term debt		(5,678)	(12,321)
Issue of shares	28	–	10,000
Increase in noncontrolling interest		–	(22)
<b>Net cash generated from financing activities</b>		<b>5,248</b>	<b>396</b>
<b>Net increase/(decrease) in cash and due from banks</b>		<b>(12,027)</b>	<b>6,054</b>
Cash and due from banks at beginning of period		25,076	19,022
<b>Cash and due from banks at end of period</b>		<b>13,049</b>	<b>25,076</b>
Cash and due from banks		15,409	27,280
Interest-bearing deposits with banks		165	285
Demand deposits	23	(2,525)	(2,489)
<b>Cash and due from banks at end of period</b>		<b>13,049</b>	<b>25,076</b>

Refer to Note 28 – Share Capital and Share Premium for significant non-cash transactions.

The notes on pages 20 to 128 form an integral part of the Financial Statements.

## Bank Statement of Cash Flows for the Year ended 31 December 2014

	Reference to notes	2014	2013
<b>Cash flows from operating activities (USD million)</b>			
Loss before tax for the period		(461)	(57)
<b>Adjustments to reconcile net loss to net cash used in operating activities</b>			
Non-cash items included in net loss before tax and other adjustments:			
Depreciation and amortisation	21,22	265	255
Loss on disposal of property and equipment	21	3	2
Accrued interest on long term debt	5	297	406
(Release of allowance for loan losses)/Provision for credit losses	7	(8)	(7)
Impairment on loan commitment		-	-
Foreign exchange losses		(2,014)	(35)
Provisions	25	-	(10)
<b>Cash generated before changes in operating assets and liabilities</b>		<b>(1,918)</b>	<b>554</b>
<b>Net decrease /(increase) in operating assets:</b>			
Securities purchased under resale agreements and securities borrowing transactions		(12,636)	2,405
Trading financial assets at fair value through profit or loss		(27,705)	157,459
Financial assets designated at fair value through profit or loss		3,363	(436)
Other loans and receivables		1,142	9,050
Other assets		(9,760)	14,742
<b>Net decrease /(increase) in operating assets</b>		<b>(45,596)</b>	<b>183,220</b>
<b>Net (decrease)/increase in operating liabilities:</b>			
Deposits		(904)	192
Securities sold under repurchase agreements and securities lending transactions		4,206	162
Trading financial liabilities at fair value through profit or loss		32,381	(153,603)
Financial liabilities designated at fair value through profit or loss		(3,111)	(4,902)
Short term borrowings		1,643	(14,118)
Other liabilities and provisions		(3,869)	(5,749)
Share-based compensation		(20)	35
<b>Net (decrease)/increase in operating liabilities</b>		<b>30,326</b>	<b>(177,983)</b>
Income taxes refund		-	6
Income taxes paid		(10)	(2)
<b>Net cash generated from/(used in) operating activities</b>		<b>(17,198)</b>	<b>5,795</b>
<b>Cash flows from investing activities (USD million)</b>			
Capital expenditures for property, equipment and intangible assets	21,22	(178)	(200)
Investment in subsidiary		-	-
<b>Net cash used in investing activities</b>		<b>(178)</b>	<b>(200)</b>
<b>Cash flows from financing activities (USD million)</b>			
Issuances of long term debt		10,926	2,658
Repayments of long term debt		(5,678)	(12,225)
Issue of shares	28	-	10,000
<b>Net cash generated by financing activities</b>		<b>5,248</b>	<b>433</b>
<b>Net increase/(decrease) in cash and due from banks</b>		<b>(12,128)</b>	<b>6,028</b>
Cash and due from banks at beginning of period		24,913	18,885
<b>Cash and due from banks at end of period</b>		<b>12,785</b>	<b>24,913</b>
Cash and due from banks		15,145	27,117
Interest-bearing deposits with banks		165	285
Demand deposits	23	(2,525)	(2,489)
<b>Cash and due from banks at end of period</b>		<b>12,785</b>	<b>24,913</b>

Refer to Note 28 – Share Capital and Share Premium for significant non-cash transactions.  
The notes on pages 20 to 128 form an integral part of the Financial Statements.

## Notes to the consolidated financial statements

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

## 1 General

Credit Suisse International ('CSI' or the 'Bank') is a bank domiciled in the United Kingdom. The address of the Bank's registered office is One Cabot Square, London, E14 4QJ. The Consolidated Financial Statements for the year ended 31 December 2014

comprise CSI and its subsidiaries (together referred to as the 'CSI group'). The Consolidated Financial Statements were authorised for issue by the Directors on 30 March 2015.

## 2 Significant Accounting Policies

### a) Statement of compliance

Both the Bank financial statements and the CSI 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 CSI group financial statements, the Bank 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, financial instruments held for trading, financial instruments that are hedged as a part of a designated hedging relationship and financial instruments designated by CSI group as at fair value through profit or 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.

The CSI group and the Bank have unrestricted and direct access to funding sources of CSG. After making enquiries of the CSG, the Directors of the Bank have received a confirmation that

CSG will ensure that the Bank maintains a sound financial position and is able to meet its debt obligations for the foreseeable future. Accordingly the Directors have prepared these accounts on a going concern basis.

### Standards and Interpretations effective in the current period

The CSI group has adopted the following amendments in the current year:

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

operation or cash flows. The disclosures required by IFRS 12 are included in Note 35 – Interests in Other Entities.

- **IAS 27 Separate Financial Statements:** In May 2011, the IASB issued an amended version of IAS 27 “Separate Financial Statements” (IAS 27). IAS 27 outlines the accounting and disclosure requirements for separate financial statements. The adoption of IAS 27 on 1 January 2014 did not have an impact on the CSi group’s financial position, results of operations or cash flows.
- **IAS 28 Investments in Associates and Joint Ventures:** In May 2011, the IASB issued IAS 28 “Investments in Associates” (IAS 28). The objective of IAS 28 is to prescribe the accounting for investments in associates and to set out the requirements for the application of the equity method when accounting for investments in associates and joint ventures. The adoption of IAS 28 on 1 January 2014, did not have an impact on the CSi group’s financial position, results of operations or cash flows.
- **IAS 32 Offsetting Financial Assets and Financial Liabilities:** In December 2011, the IASB issued amendments to IAS 32 “Offsetting Financial Assets and Financial Liabilities” (IAS 32). The amendments address inconsistencies in current practice when applying the offsetting criteria in IAS 32 ‘Financial

Instruments – Presentation’. The amended IAS 32 restricts offsetting on the Statement of Financial Position to only those arrangements in which a right of set-off exists that is unconditional and legally enforceable, in the normal course of business and in the event of the default and bankruptcy or insolvency of the CSi group and its relevant counterparties and for which the CSi group intends to either settle on a net basis, or to realise the asset and settle the liability simultaneously. The amendments also provide incremental guidance for determining when gross settlement systems result in the functional equivalent of net settlement. As a result of the adoption of the amendments, the CSi group does not net transactions where a legal opinion meeting the above criteria has not been obtained. The adoption on 1 January 2014 resulted in a restatement which increased both total assets and total liabilities by USD 8.6 billion on account of derivatives and cash collateral balances. Further, as a result of adopting the revisions to IAS 32, netting certain securities purchased and sold under resale and repurchase agreements resulted in decrease to both total assets and total liabilities of USD 1.3 billion. The overall impact the above resulted in a restatement which increased both total assets and total liabilities by USD 7.3 billion. There was no impact on total equity, net profit or earnings per share.



The CSI group and Bank made certain presentational adjustments to the 2013 balance sheet. The principle change was due to retrospective implementation of amendments to IAS 32. The impact of the adjustments is hereunder.

Group	Reported	Restatement Impact	Restated Numbers
<b>2013</b>			
<b>Assets (USD million)</b>			
Cash and due from banks	27,280	–	27,280
Interest-bearing deposits with banks	285	–	285
Securities purchased under resale agreements and securities borrowing transactions	21,698	(592)	21,106
Trading financial assets at fair value through profit or loss	393,957	6,958	400,915
of which positive market values from derivative instruments	348,292	6,959	355,251
Financial assets designated at fair value through profit or loss	20,564	(756)	19,808
Other loans and receivables	4,470	–	4,470
Other investments	34	–	34
Investment property	466	–	466
Current tax assets	65	–	65
Deferred tax assets	973	–	973
Other assets	39,538	135	39,673
Property and equipment	224	–	224
Intangible assets	434	–	434
<b>Total assets</b>	<b>509,988</b>	<b>5,745</b>	<b>515,733</b>
<b>2013</b>			
<b>Liabilities and shareholders' equity (USD million)</b>			
Deposits	5,332	–	5,332
Securities sold under repurchase agreements and securities lending transactions	5,036	(592)	4,444
Trading financial liabilities at fair value through profit or loss	366,098	7,251	373,349
of which negative market values from derivative instruments	357,643	7,249	364,892
Financial liabilities designated at fair value through profit or loss	31,829	(756)	31,073
Short term borrowings	15,624	–	15,624
Other liabilities	39,584	(158)	39,426
Provisions	14	–	14
Long term debt	21,443	–	21,443
<b>Total liabilities</b>	<b>484,960</b>	<b>5,745</b>	<b>490,705</b>
<b>2013</b>			
<b>Shareholders' equity (USD million)</b>			
Share capital	13,108	–	13,108
Share premium	12,699	–	12,699
Retained earnings	(779)	–	(779)
<b>Total shareholders' equity</b>	<b>25,028</b>	<b>–</b>	<b>25,028</b>
<b>Total liabilities and equity</b>	<b>509,988</b>	<b>5,745</b>	<b>515,733</b>

Bank	Reported	Restatement Impact	Restated Numbers
<b>2013</b>			
<b>Assets (USD million)</b>			
Cash and due from banks	27,117	–	27,117
Interest-bearing deposits with banks	285	–	285
Securities purchased under resale agreements and securities borrowing transactions	21,698	(592)	21,106
Trading financial assets at fair value through profit or loss	393,972	6,959	400,931
of which positive market values from derivative instruments	348,684	6,959	355,643
Financial assets designated at fair value through profit or loss	20,564	(756)	19,808
Other loans and receivables	4,470	–	4,470
Current tax assets	65	–	65
Deferred tax assets	973	–	973
Other assets	39,526	135	39,661
Investment in subsidiary undertakings	10	–	10
Other investments	34	–	34
Property and equipment	224	–	224
Intangible assets	434	–	434
<b>Total assets</b>	<b>509,372</b>	<b>5,746</b>	<b>515,118</b>
<b>2013</b>			
<b>Liabilities and shareholders' equity (USD million)</b>			
Deposits	5,332	–	5,332
Securities sold under repurchase agreements and securities lending transactions	5,036	(592)	4,444
Trading financial liabilities at fair value through profit or loss	366,410	7,250	373,660
of which negative market values from derivative instruments	357,955	7,250	365,205
Financial liabilities designated at fair value through profit or loss	30,895	(756)	30,139
Short term borrowings	15,624	–	15,624
Other liabilities	39,566	(156)	39,410
Provisions	14	–	14
Long term debt	21,454	–	21,454
<b>Total liabilities</b>	<b>484,331</b>	<b>5,746</b>	<b>490,077</b>
<b>2013</b>			
<b>Shareholders' equity (USD million)</b>			
Share capital	13,108	–	13,108
Share premium	12,699	–	12,699
Retained earnings	(766)	–	(766)
<b>Total shareholders' equity</b>	<b>25,041</b>	<b>–</b>	<b>25,041</b>
<b>Total liabilities and equity</b>	<b>509,372</b>	<b>5,746</b>	<b>515,118</b>

- Transition guidance for IFRS 10, IFRS 11 and IFRS 12: In June 2012, the IASB issued "Consolidated Financial Statements, Joint Arrangements and Disclosure of Interest in Other Entities; Transition Guidance" (Amendments to IFRS 10, IFRS 11 and IFRS 12). The amendments are intended to provide additional transition relief in IFRS 10, IFRS 11 and IFRS 12, by limiting the requirement to provide adjusted comparative information to only the preceding comparative period. Additionally, amendments were made to IFRS 11 and IFRS 12 to eliminate the requirement to provide comparative information for periods prior to the immediately preceding period. The CSI group has adopted the requirements of this amendment with the provisions of IFRS 10, IFRS 11 and IFRS 12 as at 1 January 2014. As the transition guidance provides clarifications to IFRS 10, IFRS 11 and IFRS 12, the impact is included in the adoption of the standards respectively.
- Investment Entities (Amendments to IFRS 10, IFRS 12 and IAS 27): In October 2012, the IASB issued "Investment Entities Amendments to IFRS 10, IFRS 12 and IAS 27" (Investment Entities Amendment). Under IFRS 10, reporting entities were required to consolidate all investees they control, however the Investment Entities Amendment provides an exception and requires investment entities to measure particular subsidiaries at fair value through profit or loss, rather than consolidate them. The Investment Entities Amendment sets out disclosure requirements for investment entities. The adoption of the Investment Entities Amendment on 1 January 2014, did not have an impact on the CSI group's financial position, results of operations or cash flows.
- Recoverable Amount Disclosures for Non-Financial Assets (Amendments to IAS 36): In May 2013, the IASB issued Recoverable Amount Disclosures for Non-Financial Assets

(Amendments to IAS 36). The Amendments to IAS 36 restrict the requirement to disclose the recoverable amount of an asset to periods in which an impairment loss has been recognised or reversed. The amendments also expand and clarify the disclosure requirements applicable when an asset's recoverable amount has been determined on the basis of fair value less costs of disposal. The Amendments to IAS 36 impact disclosures only, therefore the adoption on 1 January 2014 did not have an impact on the CSi group's financial position, results of operations or cash flows.

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

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

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

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

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

- IFRS 9 Financial Instruments: In November 2009 the IASB issued IFRS 9 "Financial Instruments" (IFRS 9) covering the classification and measurement of financial assets which introduces new requirements for classifying and measuring financial assets. In October 2010, the IASB reissued IFRS 9, which incorporated new requirements on the accounting for financial liabilities. In July 2014, the IASB issued IFRS 9 as a complete standard. The Standard includes requirements for recognition and measurement, impairment, derecognition and general hedge accounting. IFRS 9 is effective for annual periods beginning on or after 1 January 2018. The CSi group is currently evaluating the impact of adopting IFRS 9.
- IFRS 15 Revenue from Contracts with Customers: In May 2014, the IASB issued "Revenue from Contracts with Customers" (IFRS 15). IFRS 15 establishes a single, comprehensive framework for revenue recognition. The core principle of IFRS

15 is that an entity will recognise revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. IFRS 15 also includes disclosure requirements to enable users of financial statements to understand the nature, amount, timing and uncertainty of revenue and cash flows arising from contracts with customers. IFRS 15 is effective for annual reporting periods beginning on or after 1 January 2017. The CSi group is currently evaluating the impact of adopting IFRS 15.

- Amendments to IAS 27: Equity Method in Separate Financial Statements: In August 2014 the IASB issued Equity Method in Separate Financial Statements. The Amendments reinstate the equity method as an accounting option for investments in subsidiaries, joint ventures and associates in an entity's separate financial statements. The Amendments to IAS 27 are effective for annual periods beginning on or after 1 January 2016. The CSi group is currently evaluating the impact of adopting the Amendments to IAS 27.
- Annual Improvements to IFRSs 2012-2014 Cycle: In September 2014, the IASB issued "Annual Improvements to IFRSs 2012-2014 cycle" (Improvements to IFRSs 2012-2014). The Improvements to IFRSs 2012-2014 are effective for annual periods beginning on or after 1 January 2016. The CSi group is currently evaluating the impact of adopting these Improvements to IFRSs.
- Amendments to IFRS 10 and IAS 28: Sale or Contribution of Assets between an Investor and its Associate or Joint Venture: In September 2014, the IASB issues Sale or Contribution between an Investor and its Associate or Joint Venture (Amendments to IFRS 10 and IAS 28). The Amendments clarify that in a transaction involving an associate or joint venture the extent of gain or loss recognition depends on whether the assets sold or contributed constitute a business. The Amendments are effective for annual periods beginning on or after 1 January 2016. The Amendments to IFRS 10 and IAS 28 will not have a material impact on the CSi group's financial position, results of operations or cash flows.
- Investment entities: Applying the Consolidation Exception (Amendments to IFRS 10, IFRS 12 and IAS 28); In December 2014, the IASB issued Investment Entities: Applying the Consolidation Exception (Amendments to IFRS 10, IFRS 12 and IAS 28). The Amendments address issues that have arisen in relation to the exemption from consolidation for investment entities. The Amendments are effective for annual periods beginning on or after 1 January 2016. The CSi group is currently evaluating the impact of adopting the Amendments to IFRS 10, IFRS 12 and IAS 28.
- Disclosure Initiative (Amendments to IAS 1): In December 2014, the IASB issued Amendments to IAS 1 as part of their Disclosure Initiative. The Amendments clarify guidance regarding materiality, notes to the financial statements and the presentation of the Statement of Financial Position and Statement of Profit or Loss and Other Comprehensive income. The Amendments will allow entities to use more judgement when preparing and presenting financial statement. The Amendments to IAS 1 are effective for annual periods beginning on or

after 1 January 2016. As the Amendments to IAS 1 impact disclosures only, there will be no impact to the CSi group's financial position, results of operations or cash flows<sup>6</sup>

### c) Basis of consolidation

The consolidated financial statements include the results and positions of the CSi group and its subsidiaries (which includes consolidated structured entities). Subsidiaries are entities controlled by the CSi group. The CSi 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 CSi group has decision making rights, it assesses whether it controls an entity and determines whether it is a principal or an agent. The CSi group also determines whether another entity with decision-making rights is acting as an agent for the 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 factors below, in determining whether it is an agent:

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

The CSi group makes significant judgements and assumptions when determining if it has control of another entity. The CSi group may control an entity even though it holds less than half of the voting rights of that entity, for example if the CSi 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 CSi group may not control an entity even though it holds more than half of the voting rights of that entity, for example where the CSi 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 CSi group reassesses consolidation status on 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 CSi 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.

### d) Equity method investments

The CSi group's interest(s) in an associate(s) and an interest(s) in a joint venture(s) is/are accounted for using the equity method. Associates are entities in which the CSi group has significant influence, but not control (or joint control), over the operating and

financial management policy decisions. This is generally demonstrated by the CSi group holding in excess of 20%, but no more than 50%, of the voting rights. The CSi group makes significant judgements and assumptions when determining if it has significant influence over another entity. The CSi 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 CSi group has the power to participate in the financial and operating decisions by sitting on the Board. Conversely, the CSi 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. (A joint venture is an arrangement in which the CSi group has joint control, whereby the CSi group has rights to the net assets of the arrangement, rather than rights to its assets and obligations for its liabilities.)

Equity method investments are initially recorded at cost and increased (or decreased) each year by the CSi 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 Bank's functional currency is United States Dollars ('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. Nonmonetary assets and liabilities, unless revalued at fair value, denominated in foreign currencies at the reporting date are not revalued for movements in foreign exchange rates.

Assets and liabilities of CSi 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 CSi 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) 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 CSi group holds money on behalf of clients in accordance with the client money rules of the UK's FCA. This money is

included within 'Cash and due from banks' on the Statement of Financial Position and the corresponding liability is included in 'Other liabilities'.

#### **g) Securities purchased or sold under resale agreements or repurchase agreements**

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, including accrued interest is recognised on the Consolidated Statement of Financial Position as an asset. In repurchase agreements, the cash received, including accrued interest 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 CSi 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.

#### **h) Securities borrowing and lending transactions**

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 CSi 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.

#### **i) 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 proprietary trading activity 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 purpose, the derivative is recorded in the same line in the Consolidated Statement of Financial Position as the host instrument.

#### **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 CSi 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 CSi 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.

#### **j) Financial assets and liabilities at fair value through profit or loss**

The CSi 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 CSi group maximises the use of relevant observable inputs and minimises the use of unobservable inputs. Where the fair value is not determined on quoted price in an active market for an identical asset or liability or on a valuation technique that uses data from observable inputs, then reserves are established for unrealised gains or losses evident at the inception of the contracts so that no gain or loss is recorded at inception. Such reserves are amortised to income over the life of the instrument or released into income when observable inputs becomes available. 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 CSi 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. All fair value changes related to these financial instruments held at fair value through profit or loss are recognised in 'Net gains/(losses) from financial assets/liabilities at fair value through profit or loss'.

#### k) Recognition and derecognition

##### Recognition

The CSi group recognises financial instruments on its Consolidated Statement of Financial Position when the CSi 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 CSi group recognises regular-way purchases or sales of trading financial assets at the settlement date unless the instrument is a derivative.

##### Derecognition

The CSi group enters into transactions where it transfers 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 CSi 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 CSi 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 CSi group derecognises a financial liability when its contractual obligations are discharged or cancelled or expire. Where the CSi group has a financial liability and a financial instrument is exchanged for a new financial instrument with the same counterparty, which is substantially different, or when an existing financial instrument classified as a financial liability is substantially modified, the old financial instrument is deemed to be extinguished and a new financial liability is recognised. Any gain or loss due to derecognition of the extinguished instrument is recorded in the 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 and reclassified into income using the effective interest method.



### Securitisation

The CSi 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 CSi 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 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.

### l) Other loans and receivables

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. In the event of an impairment loss the effective interest will be re-estimated.

When calculating the effective interest, the CSi group estimates cash flows considering all contractual terms of the financial instruments including premiums, discounts, fees and transactions costs but not future credit losses.

### Impairment on other loans and receivables

The CSi group assesses at each 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 CSi 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 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 'Release of 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 CSi 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 CSi 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 j. 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" (IAS 37) based upon management's best estimate of the expenditure required to settle the obligation.

### m) Netting

The CSi group only offsets financial assets and liabilities and presents the net amount on the Statement of Financial Position where it:

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

In many instances the CSi group's net position on multiple 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" (IAS32) to offset transactions falling under Master Netting Agreements. 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.

#### n) Income tax

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

For UK corporation tax purposes the CSi may surrender or claim certain losses from another UK group company. The surrendering company will be compensated in full for the value of the tax losses surrendered to the claimant company.

Deferred tax is provided using the Statement of Financial Position liability method, providing for temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and their tax-base. The amount of deferred tax provided is based on the amount at which it is expected to recover or settle the carrying amount of assets and liabilities on the 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 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 Statement of Income for the periods presented is included in Note 12 – Income Tax.

#### Tax contingencies

Significant judgement is required in determining the effective tax rate and in evaluating certain tax positions. The CSi group may accrue for tax contingencies despite the belief that positions taken in tax returns are always fully supportable. 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.

#### o) Investment property

Investment property is initially measured at cost, and subsequent to initial recognition is measured using the cost model. Investment property held under the cost model is subsequently measured at cost less depreciation and any provision for impairment unless held for sale. If held for sale it will be subsequently measured at the lower of carrying amount and fair value less costs to sell.

On an annual basis an independent external valuer is engaged to assist in the determination of the fair value using recognised valuation techniques. Consideration is given to the specific nature of the properties to reflect their highest and best use including any appropriate business plan.

#### p) Intangible assets

Intangible assets consist primarily of internally developed software. Expenditure on internally developed software is recognised as an asset when the CSi 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. Also included within intangible assets is the customer list which was acquired as part of the PFS ('Prime Fund Solutions') acquisition and the capitalised cost is the fair value at the date of acquisition.

Intangible assets are stated at cost less accumulated depreciation and impairment losses, and are depreciated over an

estimated useful life of three years using the straight-line method. Internally developed software that is capitalised is depreciated on a straight-line basis over a maximum useful life of seven years. An estimated useful life of thirteen years is applied using the straight line method for the customer list. The amortisation of the intangible assets is included in the 'General and administrative expenses' in the Consolidated Statement of Income.

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

#### q) 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 CSi 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	10 years
Computer equipment	2-7 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 profit and loss to the extent the recoverable amount, which is the higher of fair value less costs of disposal and value in use, is less than its carrying amount. Value in use is the present value of the future cash flows expected to be derived from the asset. After the recognition of impairment, the depreciation charge is adjusted in future periods to reflect the asset's revised carrying amount. The carrying amount of an asset for which an impairment loss has been recognised in prior years shall be increased to its recoverable amount only in a change of estimate in the asset's recoverable amount.

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

#### r) Preference share capital

The CSi group classifies preference shares in accordance with the substance of the contractual arrangement. Liabilities are defined as contractual obligations to deliver cash or another financial asset to another entity, or to exchange financial assets or financial liabilities with another entity under conditions that are potentially unfavourable to the entity.

A contract that evidences a residual interest in the assets of an entity after deducting all of its liabilities is in substance part of equity. Therefore, preference share capital issued by the CSi group is classified as equity if it is non-redeemable and all dividends are discretionary, or is redeemable but only at the CSi group's option. Dividends on preference share capital classified as equity are recognised as distributions within equity.

#### s) Retirement benefit costs

The CSi group has both defined contribution and defined benefit pension plans. The defined benefit plans are CS group schemes, in which the Bank is not the sponsoring entity. Obligations for contributions to defined contribution pension plans are recognised as an expense in the Consolidated Statement of Income as incurred.

In accordance with the provisions of IAS 19, "Employee Benefits" (IAS 19) for defined benefit plans that share risks between various entities under common control, no retirement benefit obligation is recognised in the Statement of Financial Positions of the Bank and defined contribution accounting is applied, as the CSi group has no contractual agreement or stated policy for incurring any charges by the sponsoring employer for the net defined benefit cost. The CSi group's share of the retirement benefit obligation is instead recognised in the Statement of Financial Position of the sponsoring entity, Credit Suisse Securities (Europe) Limited ('CSSEL'), which is external to the CSi group but is a related party due to both entities being owned by CSG.

#### t) 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. The amount booked to the balance sheet positions represents the nominal values of the deposits less any unearned discounts or nominal value plus any unamortised premiums. Subsequent measurement is at amortised cost.

#### u) Long term debt

Debt issued by the CSi group is initially measured at fair value, which is the fair value of the consideration received, net of transaction costs incurred. Subsequent measurement is at amortised cost, using the effective interest method to amortise cost at inception to the redemption value over the life of the debt. CSi group's long-term debt also includes instruments with embedded derivative features which are substantially all accounted for at fair value.

#### Debt with embedded derivatives

The CSi group issues long term debt containing embedded derivatives, most of which have been designated as financial liabilities at fair value through profit or loss. For more information on the

criteria that must be met to designate a financial instrument at fair value please refer to the previous section of this disclosure with the same name. Both the host instrument and embedded derivative in these structured notes are remeasured at each reporting period with changes in fair value being reported in 'Net gains/ (losses) from financial assets/liabilities at fair value through profit or loss' in the Consolidated Statement of Income.

#### v) Contingent liabilities

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

#### w) 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 and administrative expenses' on the Consolidated Statement of Income.

#### x) Share-based payments

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

#### y) Other compensation plans

The CSi 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) Interest income and expense

Interest income and expense includes interest income and expense on the CSi group's financial instruments owned and financial instruments sold not yet purchased, short-term and long-term borrowings, reverse repurchase and repurchase agreements and securities borrowed and securities lending transactions. Interest income and expense does not include interest flows on the CSi group's trading derivatives (except for hedging relationships) and certain financial instruments classified as at fair value through profit or loss. Interest income and expense is accrued, and any related net deferred premiums, discounts, origination fees or costs are amortised as an adjustment to the yield over the life of the related asset or liability.

#### aa) Financial guarantee contracts

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 CSi 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'.

#### ab) Commissions and fees

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

- i) The amount of revenue can be measured reliably;
- ii) It is probable that the economic benefits associated with the transaction will flow to the entity;
- iii) The stage of completion of the transaction at the reporting date can be measured reliably; and
- iv) The costs incurred for the transaction and the costs to complete the transaction can be measured reliably.

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

- Income earned on the execution of a significant act is recognised as revenue when the act is completed (for example, fees arising from negotiating, or participating in the negotiation of, a transaction for a third party, 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 CSi 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 CSi 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 the CSi group recognises the related revenue.

#### ac) Operating leases

The leases entered into by the CSi 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. For lease incentive provided by the lessor, the CSi group, as lessee, recognises the aggregate benefit as a reduction of rental expense over the lease term on a straight-line basis.

If the CSi 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 CSi group are exclusively operating leases. Sublease payments received are recognised through the Consolidated Statement of Income.

#### ad) Dividends

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

#### ae) Noncontrolling interest

Noncontrolling interest is equity in subsidiaries not attributable, directly or indirectly, to the CSi group. The CSi group presents noncontrolling interest in equity. However, if the holders of noncontrolling interest have the right to put the shares to CSi or one of its subsidiaries the instrument may meet the definition of a liability and is presented as such in the consolidated financial statements of the CSi group.

### 3 Critical Accounting Estimates and Judgements in Applying Accounting Policies

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

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

- i) Derivative financial instruments and hedging
- j) Financial assets and liabilities at fair value through profit or loss
- k) Recognition and derecognition
- l) Other loans and receivables
- n) Income tax
- s) Retirement benefit costs
- v) Contingent liabilities
- w) Provisions
- x) Share-based payments

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

#### Fair Value

A significant portion of the CSi 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 CSi 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 CSi 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 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 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 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 and the impact of changes in the CSi group's own credit spreads (known as debit valuation adjustments or DVA) is considered when measuring the fair value of its liabilities.

For OTC derivatives, the impact of changes in both the CSi 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 CSi 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 CSi group's credit standing is considered when measuring their fair value, based on current funded debt spreads.

As of the end of 2014, 81.1% and 82.7% of CSi group's total assets and total liabilities respectively, were measured at fair value (2013: 81.6% and 82.4%, respectively). Level 3 assets and Level 3 liabilities were USD 11.6 billion and USD 11.4 billion respectively as of the end of 2014 (2013: USD 12.5 billion and USD 11.4 billion). As of the end of 2014, these assets comprised 2.12% of total assets (2013: 2.42%) and 2.18% of total liabilities (2013: 2.31%).

For further information on the fair value hierarchy and a description of CSi group's valuation techniques, refer to Note 36 – Financial Instruments.

The CSi 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 supporting a valuation technique in accordance with IAS 39 AG 76. The financial instrument is recognised at the transaction price and 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.

Control processes are applied to ensure that the fair value of the financial instruments reported in the Bank and CSi group Financial Statements, including those derived from pricing models, are appropriate and determined on a reasonable basis. For further information related to the CSi group's control and governance processes on the fair value of financial instruments please refer Note 36 – Financial Instruments.

### Structured Entities

As part of normal business, the CSi 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 CSi group may hold interests in the structured entities. If the CSi group controls the structured entity then that entity is included in the CSi group's consolidated financial statements. The CSi group discloses information about significant judgements and assumptions made in determining whether the CSi group has (joint) control of, or significant influence over, another entity including structured entities. The CSi 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 35 – Interests in Other Entities for more information.

### Contingencies and loss provisions

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

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

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

### Litigation contingencies

The CSi 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. In presenting the Consolidated Financial



Statements, management makes estimates regarding the outcome of legal, regulatory and arbitration matters and takes a charge to income when losses with respect to such matters are probable and can be reasonably estimated. Charges are not established for matters when losses cannot be reasonably estimated. Estimates, by their nature, are based on judgement and currently available information and involve a variety of factors, including but not limited to the type and nature of the litigation, claim or proceeding, the progress of the matter, the advice of legal counsel and other advisers, the CSi group's defences and its experience in similar cases or proceedings, as well as the CSi group's assessment of matters, including settlements, involving other defendants in similar or related cases or proceedings.

#### **Allowances and impairment losses on other loans and receivables**

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

The CSi 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 to determine whether they should be moved to CSi 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 CSi

group credit risk management at least annually or more frequently depending on the risk profile of the borrower or credit relevant events.

#### **Retirement Benefit Costs**

The CSi group has both defined contribution and defined benefit pension plans. The defined benefit plans are CS group schemes, CSi being a participant to the scheme and Credit Suisse Securities (Europe) Limited ('CSSEL'), a related party also owned by the CSG, as the sponsor. The CSi group's share of the retirement benefit obligation, main estimates and judgements lie with CSSEL which are described below:

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

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

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

#### **Taxes**

##### **Tax contingencies**

Significant judgement is required in determining the effective tax rate and in evaluating certain tax positions. The CSi group may accrue for tax contingencies despite the belief that positions taken in tax returns are always fully supportable. 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.

##### **Deferred tax valuation**

Deferred tax assets ('DTA') and deferred tax liabilities ('DTL') are recognised for the estimated future tax effects of operating loss carry-forwards and temporary differences between the carrying amounts of existing assets and liabilities and their respective tax bases at the statement of financial position date. The realisation of deferred tax assets on temporary differences is dependent

upon the generation of taxable income in future accounting periods after those temporary differences become deductible. The realisation of deferred tax assets on net operating losses is dependent upon the generation of future taxable income. Management regularly evaluates whether deferred tax assets can be realised. Only if management considers it probable that a deferred tax asset will be realised is a corresponding deferred tax assets established without impairment.

In evaluating 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 recent losses of the Bank (primarily arising from the financial crisis that started in late 2008 and thereafter). 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 evaluation is derived from budgets and strategic business plans but is dependent on numerous factors, some of which are beyond management's control, such as the fiscal and regulatory environment and external economic growth conditions. Substantial variance of actual results from estimated future taxable profits, or changes in CSi 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.

#### Share-based payments

The CSi group uses the liability method to account for its share-based payment plans, which requires the CSi 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 marked-to-market based on the latest share price information reflecting the terms of the award. Share unit awards that contain earnings performance conditions are marked-to-market based on 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.

#### Transfer Pricing

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

## 4 Segmental Analysis

The Bank has concluded that there are three reportable segments that are regularly reviewed by the Chief Operating Decision Maker ('CODM') when assessing the performance and allocation of resources. These segments are based on products and services offered by CSi group:

Fixed Income:	The fixed income division (FID) operates in rates, foreign exchange, credit, structured products trading, emerging markets, and commodities markets. The operations also include ongoing management and wind-down of legacy businesses in CDOs, RMBS origination, CMBS and Commodities. The product suite covers both cash and OTC derivatives including government bonds, corporate bonds, treasury bills, interest rate swaps, credit-default swaps, foreign exchange options, total return swaps, and listed options across product classes.
Equities:	The activities of the equities division include sales, trading, financing, prime brokerage services and market-making in global equity and equity-related securities, options, futures, risk management and hedging products. Activities cover both exchange-traded and over-the-counter traded securities, including American Depositary Receipts, restricted stocks, equity repurchases, block trade executions, program trading executions, equity derivatives and convertible securities.
Investment banking:	The investment banking division (IBD) service offering includes mergers and acquisitions, debt, equity and other capital raising activities.

Segment performance is assessed by the Board based on the Monthly Board Summary report, which details revenues by segment. CSi assets and liabilities are not managed by segment. Expenses are managed as part of the wider CS group management processes and therefore, while the CODM does assess the overall expense base for CSi, it does not manage the expenses at a CSi segment level.

Similarly certain revenue items are not directly allocated to the above business segments at a CSi Bank level. These items include transfer pricing, certain credit risk allocations, treasury and corporate centre allocations. These are not included as an operating segment as they are not separate business activities from which CSi may earn revenues.

Transactions between reportable segments are held at an arm's length basis and are included in the segment result.

The following table shows the external revenue of each operating segment during the year:

	2014	2013
<b>Revenues (USD million)</b>		
Fixed income	907	1,526
Equities	809	901
Investment banking	244	172
<b>Total revenues</b>	<b>1,960</b>	<b>2,599</b>

The following table shows the CSi group's revenue by the region which generates the revenue:

	2014	2013
<b>Revenues (USD million)</b>		
EMEA <sup>1</sup>	1,122	1,652
America	341	421
Asia	497	526
<b>Total revenues</b>	<b>1,960</b>	<b>2,599</b>

<sup>1</sup> EMEA is defined as Europe, Middle East and Africa excluding Switzerland and Luxembourg.

#### CSi group Assets:

Non-current assets, other than financial instruments, deferred tax assets, post-employment benefit assets and rights arising under insurance contracts, consist of property and equipment, investment property and intangible assets totaling USD 994 million (2013: USD 1,124 million), all of which are located in EMEA.

#### Reconciliation of reportable segment revenues

	2014	2013
<b>IFRS statement of income (USD million)</b>		
Total revenues for reportable segments	1,960	2,599
Revenue sharing agreements	(441)	(506)
Treasury funding	(319)	(448)
Other corporate items <sup>1</sup>	(158)	(225)
CS group to primary reporting reconciliations <sup>2</sup>	102	234
<b>Net Revenues</b>	<b>1,144</b>	<b>1,654</b>

<sup>1</sup> Significant items being losses on risk weighted asset ('RWA') hedges.

<sup>2</sup> This is the difference between the monthly board summaries which are prepared on a US GAAP basis and the CSi accounts prepared in accordance with IFRS.

In 2013 this included the release of a USD 104 million valuation adjustment in relation to trades where the CSi group is a market maker following the adoption of IFRS 13.

The CSi group is not reliant on any single customer for its revenue generation.

## 5 Net Interest income/(expense)

Group	2014	2013
<b>Net interest income/(expense) (USD million)</b>		
Other loans and receivables	405	450
Securities purchased under resale agreements and securities borrowing transactions	59	121
Cash collateral paid on OTC derivatives transactions	89	66
Interest income on cash, cash equivalents and loans	233	133
<b>Interest income</b>	<b>786</b>	<b>770</b>
Deposits	(3)	(11)
Short term borrowings	(190)	(274)
Securities sold under repurchase agreements and securities lending transactions	(62)	(81)
Long term debt	(297)	(406)
Cash collateral received on OTC derivatives transactions	(109)	(77)
<b>Interest expense</b>	<b>(661)</b>	<b>(849)</b>
<b>Net interest income/(expense)</b>	<b>125</b>	<b>(79)</b>

Interest income accrued on impaired financial assets during the year was USD 1.06 million (2013: USD 0.08 million).

## 6 Commissions and Fee Income

Group	2014	2013
<b>Commission and fees income (USD million)</b>		
Lending business	130	193
Other customer services	(115)	(138)
<b>Net commission and fee income</b>	<b>15</b>	<b>55</b>
Total commission and fee income	130	193
Total commission and fee expense	(115)	(138)
<b>Net commission and fee income</b>	<b>15</b>	<b>55</b>

## 7 Release of provision for Credit Losses

Group	2014	2013
<b>Release of provision for credit losses (USD million)</b>		
Allowance for loan losses	9	7
Provisions for off-balance sheet exposure	(1)	–
<b>Release of provision for credit losses</b>	<b>8</b>	<b>7</b>

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

Group	2014	2013
<b>Net gains from financial assets/liabilities at fair value through profit or loss (USD million)</b>		
Interest rate	6,643	875
Foreign exchange	(3,584)	1,181
Equity	(1,695)	(337)
Commodity	(102)	709
Credit	178	(330)
Other	(24)	41
<b>Total net gains from financial assets/liabilities at fair value through profit or loss</b>	<b>1,416</b>	<b>2,139</b>
Of which:		
<b>Net gains/(losses) from financial assets/liabilities designated at fair value through profit or loss (USD million)</b>		
Securities purchased under resale agreements and securities borrowing transactions	(243)	(65)
Loans	(537)	253
Other financial assets designated at fair value through profit or loss	24	190
Securities sold under repurchase agreements and securities lending transactions	743	43
Short term borrowings	606	155
Long term debt	(784)	(725)
Other financial liabilities designated at fair value through profit or loss	63	55
<b>Total net (losses) from financial assets/liabilities designated at fair value through profit or loss</b>	<b>(128)</b>	<b>(94)</b>

Included in this total is USD 5 million gain (2013: USD 124 million loss) of fair value changes of financial liabilities due to changes in the CSi group's own creditworthiness (Structured Notes and

Subordinated Debt, included in Long term debt and Short term borrowings above). The cumulative effect thereon is a gain of USD 23 million (2013: gain USD 18 million).

## 9 Other Revenues

Group	2014	2013
<b>Other revenues (USD million)</b>		
Revenue sharing agreement expense	(441)	(506)
Other	21	38
<b>Other revenues</b>	<b>(420)</b>	<b>(468)</b>

The revenue sharing agreement expense principally relates to amounts allocated to CSi from other companies in the CS group under transfer pricing policies.

## 10 Compensation and Benefits

Group	2014	2013
<b>Compensation and benefits (USD million)</b>		
Salaries and variable compensation	(287)	(366)
Social security	(35)	(46)
Pensions	(13)	(13)
Other	(6)	(4)
<b>Compensation and benefits</b>	<b>(341)</b>	<b>(429)</b>

Included in the above table are amounts relating to Directors' remuneration. Further details are disclosed in Note 31 – Related Parties.

## 11 General, Administrative and Trading Expenses

Group	Reference to note	2014	2013
<b>General, administrative and trading expenses (USD million)</b>			
Brokerage Charges and Clearing House Fees		(278)	(319)
Insurance Charges		(69)	(85)
<b>Trading expenses</b>		<b>(347)</b>	<b>(404)</b>
Occupancy Expenses		(25)	(11)
Amortisation Expenses	22	(198)	(174)
Depreciation Expenses	21	(60)	(66)
Depreciation for Real Estate	18	(12)	(11)
Impairment of Investment Property	18	(9)	(51)
Litigation	25	(58)	2
Auditor Remuneration		(2)	(2)
Professional Services		(27)	(36)
Impairment of Intangible Asset	22	(7)	(15)
CSG Trademark		(4)	(17)
Net Overheads allocated from other CS group Entities		(383)	(385)
UK Bank Levy		(21)	(57)
Marketing Data, Publicity and Subscription		(17)	(18)
Non Income Taxes		(15)	(16)
Other		(25)	(23)
<b>General and administrative expenses</b>		<b>(863)</b>	<b>(880)</b>
<b>General, administrative and trading expenses</b>		<b>(1,210)</b>	<b>(1,284)</b>

The expenses incurred by other CS group company under common control are recharged to CSi group through 'Net overheads allocated from other CS group entities'. The recharges comprise

of compensation and benefit expenses and general administrative expenses.

### Auditor's remuneration

Auditor's remuneration in relation to the statutory audit amounted to USD 2.4 million (2013: USD 2.3 million). The following fees were payable by the CSi group to the auditor, KPMG LLP.

CSi Auditor's remuneration (USD '000)	2014	2013
Fees payable to the Bank's auditor for the audit of the Bank's annual accounts	(1,831)	(1,936)
Fees payable to the CSi group's auditor and its associates for other services:		
Audit-related assurance services	(514)	(289)
Other assurance services	(10)	(41)
<b>Total</b>	<b>(2,355)</b>	<b>(2,266)</b>



## 12 Income Tax

	Group		Bank	
	2014	2013	2014	2013
<b>Current and deferred taxes (USD million)</b>				
<b>Current tax</b>				
Current tax expense for the period	(1)	(2)	(1)	(2)
<b>Current income tax expense</b>	<b>(1)</b>	<b>(2)</b>	<b>(1)</b>	<b>(2)</b>
<b>Deferred tax</b>				
Origination and reversal of temporary differences	(239)	73	(239)	73
Current year tax losses	345	(51)	345	(51)
Impairment of deferred tax asset	(676)	(319)	(676)	(319)
Adjustments in respect of previous periods	(2)	6	(2)	6
Effect of changes in tax rate or the imposition of new taxes	(15)	(187)	(15)	(187)
<b>Deferred income tax expense</b>	<b>(587)</b>	<b>(478)</b>	<b>(587)</b>	<b>(478)</b>
<b>Income tax expense</b>	<b>(588)</b>	<b>(480)</b>	<b>(588)</b>	<b>(480)</b>

The UK corporation tax rate reduced from 23% to 21% with effect from 1 April 2014. Furthermore, the UK corporation tax rate will reduce from 21% to 20% with effect from 1 April 2015.

Further information about deferred income tax is presented in Note 13 – Deferred Taxes. The income tax expense for the year can be reconciled to the loss per the statement of income as follows:

### Reconciliation of taxes computed at the UK statutory rate

	Group		Bank	
	2014	2013	2014	2013
<b>Reconciliation of taxes computed at the UK statutory rate (USD million)</b>				
Loss before tax	(407)	(59)	(461)	(57)
Income tax expense computed at the statutory rate of 21.49% (2013: 23.25%)	88	14	99	14
Increase/(decrease) in income taxes resulting from:				
Other permanent differences	18	8	7	8
Effect of different tax rates of operations/subsidiaries operating in other jurisdictions	(1)	(2)	(1)	(2)
Impairment of deferred tax asset	(676)	(319)	(676)	(319)
Adjustments to deferred tax in respect of previous periods	(2)	6	(2)	6
Effect on deferred tax resulting from changes to tax rates	(15)	(187)	(15)	(187)
<b>Income tax expense</b>	<b>(588)</b>	<b>(480)</b>	<b>(588)</b>	<b>(480)</b>

### 13 Deferred Taxes

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

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

The Finance Act 2013, which passed into law on 17 July 2013, included further rate reductions in the UK corporation tax

rate from 23% to 21% with effect from 1 April 2014 and 21% to 20% with effect from 1 April 2015.

The reduction in the UK corporation tax rate to 20% resulted in a charge to the income statement of USD 15 million (2013: USD 187 million).

Group and Bank	2014	2013
<b>Deferred tax (USD million)</b>		
Deferred tax assets	386	973
<b>Net position</b>	<b>386</b>	<b>973</b>
<b>Balance at 1 January</b>	<b>973</b>	<b>1,450</b>
Debit to income for the year	(572)	(290)
Effect of change in tax rate expensed to income statement	(15)	(187)
<b>At end of the year</b>	<b>386</b>	<b>973</b>

#### Deferred tax assets

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

Group and Bank	2014	2013
<b>Components of net deferred tax assets (USD million)</b>		
Derivative financial instruments	3	7
Share-based compensation	25	29
Decelerated tax depreciation	147	134
Other provisions	67	70
Unpaid interest	82	348
Deferred tax impact on losses carried forward	62	385
<b>At end of the year</b>	<b>386</b>	<b>973</b>

#### Details of the tax effect of temporary differences

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

Group and Bank	2014	2013
<b>Tax effect of temporary differences (USD million)</b>		
Derivative financial instruments	(4)	(5)
Share-based compensation	(4)	6
Decelerated tax depreciation	13	(5)
Other provisions	(3)	(10)
Unpaid interest	(266)	3
Deferred tax impact on losses carried forward	(323)	(467)
<b>Total deferred tax (expense)/benefit in the statement of income</b>	<b>(587)</b>	<b>(478)</b>

Deferred tax assets ('DTA') and liabilities are recognised for the estimated future tax effects of operating loss carry-forwards and temporary differences between the carrying amounts of existing assets and liabilities and their respective tax bases at the Statement of Financial Position date. The realisation of DTA on temporary differences is dependent upon the generation of taxable income in future accounting periods after those temporary

differences become deductible. The realisation of DTA on temporary differences is dependent upon the generation of future taxable income. Management regularly evaluates whether DTA can be realised and if not, make an impairment.

In evaluating whether DTA can be realised, management considers both positive and negative evidence, including projected future taxable income, the scheduled reversal of deferred tax

liabilities and tax planning strategies. This evaluation requires significant management judgement, primarily with respect to projected taxable income, also taking into account the history of recent losses of the bank (primarily arising from the financial crisis that started in late 2008 and thereafter). The future taxable income can never be predicted with certainty, but management also evaluated the factors contributing to the losses and considered whether or not they are temporary or indicate an expected permanent decline in earnings. The evaluation is derived from budgets and strategic business plans but is dependent on numerous factors, some of which are beyond management's control, such as the fiscal and regulatory environment and external economic growth conditions. Substantial variance of actual results from estimated future taxable profits, or changes in CSi group's estimate of future taxable profits and potential restructurings, could lead to changes in the amount of DTA that are realisable, or considered realisable, or considered realisable, and would require a corresponding adjustment to the level of recognised DTA.

As a consequence of this evaluation, it was considered that the DTA should be impaired by a further USD 676 million during the year. The DTA not recognised in the Statement of Financial Position as at 31 December 2014 is USD 995 million (2013: USD 319 million). The Bank's assessment is that remaining recognised trading losses carried forward should be utilised within a period of 3 years. If strategies and business plans 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 DTA balance is no longer probable.

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

## 14 Securities Borrowed, Lent and Subject to Resale or Repurchase Agreements

The following table summarises the securities purchased under agreements to resell and securities borrowing transactions, at their respective carrying values:

Group and Bank	2014	2013 <sup>1</sup>
<b>Securities borrowed or purchased under agreement to resell (USD million)</b>		
Securities purchased under resale agreements	30,991	19,138
Deposits paid for securities borrowed	2,751	1,968
<b>Total securities borrowed or purchased under agreement to resell</b>	<b>33,742</b>	<b>21,106</b>

<sup>1</sup> On 1 January 2014, the CSi group adopted amendments to IAS 32 "Offsetting Financial Assets and Financial Liabilities" (IAS 32). Comparative information has been restated accordingly (see Note 2).

The following table summarise the securities lent under agreements to repurchase and securities lending transactions, at their respective carrying values:

Group and Bank	2014	2013 <sup>1</sup>
<b>Securities lent or sold under agreement to repurchase (USD million)</b>		
Securities sold under repurchase agreements	2,517	2,485
Deposits received for securities lent	6,133	1,959
<b>Total securities lent or sold under agreement to repurchase</b>	<b>8,650</b>	<b>4,444</b>

<sup>1</sup> On 1 January 2014, the CSi group adopted amendments to IAS 32 "Offsetting Financial Assets and Financial Liabilities" (IAS 32). Comparative information has been restated accordingly (see Note 2).

Securities borrowed, lent and subject to resale and repurchase agreements are mainly due within one year.

Repurchase and reverse 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 generally have terms ranging from overnight to a longer or unspecified period of maturity. The CSi group monitors the fair value of securities received or delivered. For securities purchased under resale agreements, the CSi 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.

Deposits paid for securities borrowed and deposits received for securities lent are recorded at the amount of cash paid or received. These transactions are typically collateralised by cash or marketable securities. For securities lending transactions, the CSi group receives cash or securities as collateral in an amount generally in excess of the market value of securities lent. The CSi group monitors the market value of securities borrowed and securities on a daily basis and additional collateral is obtained as necessary.

## 15 Trading Financial Assets and Liabilities at Fair Value Through Profit or Loss

	Group		Bank	
	2014	2013 <sup>1</sup>	2014	2013 <sup>1</sup>
<b>Trading financial assets at fair value through profit or loss (USD million)</b>				
Debt securities	24,980	31,046	25,369	30,907
Equity securities	10,271	12,060	9,755	11,307
Derivative instruments	389,218	355,251	389,373	355,643
Other	3,691	2,558	4,145	3,074
<b>Trading financial assets at fair value through profit or loss</b>	<b>428,160</b>	<b>400,915</b>	<b>428,642</b>	<b>400,931</b>
<b>Trading financial liabilities at fair value through profit or loss (USD million)</b>				
Short positions	8,931	8,439	8,931	8,439
Derivative instruments	396,949	364,892	397,101	365,205
Other	9	18	9	16
<b>Trading financial liabilities at fair value through profit or loss</b>	<b>405,889</b>	<b>373,349</b>	<b>406,041</b>	<b>373,660</b>

<sup>1</sup> On 1 January 2014, the CSi group adopted amendments to IAS 32 "Offsetting Financial Assets and Financial Liabilities" (IAS 32). Comparative information has been restated accordingly (see Note 2).

Debt instruments primarily consist of corporate bonds and government securities.

Trading financial assets include USD 16 billion (2013: USD 23 billion) which are encumbered. The transactions in relation to the

encumbered assets are conducted under terms that are usual and customary for securities lent, repurchase agreements or other collateralised borrowings.

## 16 Financial Assets and Liabilities Designated at Fair Value through Profit or Loss

Group and Bank	2014	2013 <sup>1</sup>
<b>Financial Assets designated at fair value through profit or loss (USD million)</b>		
Loans	9,353	10,493
Securities purchased under resale agreements and securities borrowing transactions	4,153	6,841
Other	2,939	2,474
<b>Total financial assets designated at fair value through profit or loss</b>	<b>16,445</b>	<b>19,808</b>

<sup>1</sup> On 1 January 2014, CSi group adopted amendments to IAS 32 "Offsetting Financial Assets and Financial Liabilities" (IAS 32). Comparative information has been restated accordingly (See Note 2).

Of the financial assets designated at fair value through profit or loss, loans and reverse repurchase agreements were elected to alleviate an accounting mismatch while debt instruments were elected because they are managed on a fair value basis.

For loans designated at fair value through profit or loss, the maximum fair value exposure to credit risk as at 31 December 2014 was USD 9.4 billion (2013: USD 10.5 billion). To mitigate this credit risk, securities are held as collateral, and credit default swaps with a notional value of USD 2.5 billion (2013: USD 2.3 billion) have been transacted to transfer this risk into the capital markets.

The fair value movement attributable to counterparty credit on loans designated at fair value through profit or loss is calculated using credit spreads applicable to specific points in time. All other risk variables are held constant and the credit spreads are moved based on current market conditions. During the year ended

31 December 2014, this fair value movement was a decrease of USD 35 million (2013: decrease USD 91 million). The cumulative effect thereon at the year-end was a decrease of USD 1.23 billion (2013: decrease USD 1.19 billion). The corresponding decrease in fair value of the swaps and securities in place to mitigate this risk was USD 32 million (2013: increase USD 26 million). The cumulative effect thereon at the year-end was an increase of USD 2.14 billion (2013: increase USD 2.17 billion).

For securities purchased under resale agreements, the Bank's credit exposure to the counterparties of these trades is mitigated by posted collateral and through subsequent margin calls. Accordingly, the Bank does not enter into hedges to mitigate credit exposure to its counterparties. Also, given that the credit exposure is almost eliminated, the fair value changes attributable to credit risk is insignificant.

	Group		Bank	
	2014	2013 <sup>1</sup>	2014	2013 <sup>1</sup>
<b>Financial Liabilities designated at fair value through profit or loss (USD million)</b>				
Subordinated Debt	135	315	135	315
Structured notes (included in Long term debt and Short term borrowings)	21,000	21,995	20,688	21,061
Securities sold under repurchase agreement and securities lending transactions	5,324	7,483	5,324	7,483
Other	881	1,280	881	1,280
<b>Total financial liabilities designated at fair value through profit or loss</b>	<b>27,340</b>	<b>31,073</b>	<b>27,028</b>	<b>30,139</b>

<sup>1</sup> On 1 January 2014, CSi group adopted amendments to IAS 32 "Offsetting Financial Assets and Financial Liabilities" (IAS 32). Comparative information has been restated accordingly (See Note 2).

Of the other financial liabilities designated at fair value through profit or loss, subordinated debt and repurchase agreements were primarily elected to alleviate an accounting mismatch, while structured notes were mainly 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 CSi group would issue similar instruments as of the reporting date.

The fair value of subordinated debt and structured notes is calculated using a yield curve which reflects the CSi group's credit rating in the market. This is achieved by adjusting the relevant yield curve by the CSi group's credit spread, dependent on the tier of the debt, at each point in the curve to provide an own credit adjusted valuation.

The carrying amount is USD 0.5 billion lower than the principal amount that the CSi group would be contractually required to pay to the holder of these financial liabilities at maturity (2013: USD 0.4 billion higher).

## 17 Other Loans and Receivables

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

Group and Bank	2014	2013
<b>Loans (USD million)</b>		
Real estate	19	-
Commercial and industrial loans	2,724	452
Financial institutions	597	4,041
<b>Gross loans</b>	<b>3,340</b>	<b>4,493</b>
of which domestic	3,011	3,045
of which foreign	329	1,448
Net unearned income	-	(12)
Allowance for loan losses	(6)	(11)
<b>Net loans</b>	<b>3,334</b>	<b>4,470</b>
<b>Gross impaired loans</b>	<b>26</b>	<b>-</b>
of which loans with an individual allowance	26	-
of which loans without an individual allowance	-	-

Other loans and receivables due within one year for the CSi group and Bank, amount to USD 124 million (2013: USD 3,183 million).

**Reconciliation of the allowance for loan losses by class**

The following table sets forth the movements in the allowances for impairment losses on other loans and receivables:

	Banks	Customers	Total
<b>Group and Bank</b>			
<b>Allowance for loan losses (USD million)</b>			
Balance at 1 January 2014	(8)	(3)	(11)
Additional allowances for impairment losses	(3)	–	(3)
Reversal of allowances for impairment losses	7	1	8
Movement recognised in Consolidated Statement of Income	4	1	5
Net write backs	–	–	–
<b>Balance at 31 December 2014</b>	<b>(4)</b>	<b>(2)</b>	<b>(6)</b>
Balance at 1 January 2013	(6)	(12)	(18)
Additional allowances for impairment losses	(5)	(2)	(7)
Reversal of allowances for impairment losses	3	12	15
Movement recognised in Consolidated Statement of Income	(2)	10	8
Net write backs	–	(1)	(1)
<b>Balance at 31 December 2013</b>	<b>(8)</b>	<b>(3)</b>	<b>(11)</b>

**18 Investment Property**

The CSI group consolidates a number of structured entities which hold property. Investment properties are currently held at cost less depreciation and provision for impairment. An impairment charge

of USD 9 million (2013: USD 51 million) was taken to the Consolidated Statement of Income for the year. The fair value and carrying value amount were the same as at 31 December 2014.

Group	2014	2013
<b>Investment property (USD million)</b>		
Balance at the beginning of the year	466	518
Reclassification to real estate held-for-sale	(20)	(1)
Depreciation charge for the year	(12)	(11)
Impairment charge for the year	(9)	(51)
Foreign Currency Translation	1	11
<b>Balance at the end of year</b>	<b>426</b>	<b>466</b>

The recoverable amount of investment property is estimated based on its value-in-use. Based on the assessment in 2014, the carrying amount of the unit was determined to be higher than its recoverable amount of USD 426 million and an impairment loss of USD

9 million was recognised for the year ended 31 December 2014. The value-in-use is based on an externally obtained appraisal which calculates the Net Present Value using the 'Business Plan Assessment' approach.



## 19 Other Assets and Other Liabilities

	Group		Bank	
	2014	2013 <sup>1</sup>	2014	2013 <sup>1</sup>
<b>Other Assets (USD million)</b>				
Brokerage receivables (refer to Note 20)	4,185	4,608	4,185	4,608
Interest and fees receivable	159	196	175	184
<b>Cash collateral on derivative instruments</b>				
Banks	19,296	15,342	19,296	15,342
Customers	25,547	19,334	25,547	19,334
Other	218	193	218	193
<b>Other assets</b>	<b>49,405</b>	<b>39,673</b>	<b>49,421</b>	<b>39,661</b>

<sup>1</sup> On 1 January 2014, the CSi group adopted amendments to IAS 32 "Offsetting Financial Assets and Financial Liabilities" (IAS 32). Comparative information has been restated accordingly (see Note 2).

Other assets are mainly due within one year.

	Group		Bank	
	2014	2013 <sup>1</sup>	2014	2013 <sup>1</sup>
<b>Other Liabilities (USD million)</b>				
Brokerage payables (refer to Note 20)	1,212	1,250	1,212	1,250
Interest and fees payable	769	943	778	943
<b>Cash collateral on derivative instruments</b>				
Banks	17,526	16,308	17,526	16,308
Customers	15,258	12,302	15,258	12,302
Failed sales	39	69	39	69
Share-based compensation liability	124	147	124	144
Other	583	8,407	585	8,394
<b>Other liabilities</b>	<b>35,511</b>	<b>39,426</b>	<b>35,522</b>	<b>39,410</b>

<sup>1</sup> On 1 January 2014, the CSi group adopted amendments to IAS 32 "Offsetting Financial Assets and Financial Liabilities" (IAS 32). Comparative information has been restated accordingly (see Note 2).

## 20 Brokerage Receivables and Brokerage Payables

Brokerage receivables and payables included in the table below represent amounts due to and from banks, brokers and dealers as well as customers for varying transaction types. Included within these balances are margin accounts where cash has been deposited with an exchange, bank or broker to facilitate future transactions and where the CSi group requires customers to maintain margin collateral in compliance with applicable regulatory and internal guidelines.

The CSi group also enters into fully margined exchange traded derivatives such as futures and balance payable to or receivable from the exchange the next day are recorded in the brokerage balances. In addition the CSi group performs brokerage and clearance activities for clients where exchange fees are incurred and receivable from clients.

	Group		Bank	
	2014	2013	2014	2013
<b>Brokerage receivable (USD million)</b>				
Due from customers	6	143	6	143
Due from banks brokers and dealers	4,179	4,465	4,179	4,465
<b>Total brokerage receivables</b>	<b>4,185</b>	<b>4,608</b>	<b>4,185</b>	<b>4,608</b>
<b>Brokerage payable (USD million)</b>				
Due to customers	20	61	20	61
Due to banks brokers and dealers	1,192	1,189	1,192	1,189
<b>Total brokerage payables</b>	<b>1,212</b>	<b>1,250</b>	<b>1,212</b>	<b>1,250</b>

During the current reporting period there were no defaults or breaches in respect of third party loan payables.

Included within payables are liabilities identified in respect of client money received from client. The CSi group and Bank held

USD 129 million as at 31 December 2014 (2013: USD 158 million). This cash is recorded under 'Cash and due from banks'.

## 21 Property and Equipment

	Leasehold Improvements	Computer Equipment	Office Equipment	Total
<b>2014</b>				
<b>Group</b>				
<b>Property and equipment (USD million)</b>				
<b>Cost:</b>				
<b>Cost as at 1 January 2014</b>	<b>529</b>	<b>235</b>	<b>118</b>	<b>882</b>
Additions	9	33	1	43
Disposals	(8)	(50)	(13)	(71)
<b>Cost as at 31 December 2014</b>	<b>530</b>	<b>218</b>	<b>106</b>	<b>854</b>
<b>Accumulated depreciation:</b>				
<b>Accumulated depreciation as at 1 January 2014</b>	<b>(371)</b>	<b>(182)</b>	<b>(105)</b>	<b>(658)</b>
Charge for the year	(21)	(32)	(7)	(60)
Disposals	5	50	13	68
<b>Accumulated depreciation as at 31 December 2014</b>	<b>(387)</b>	<b>(164)</b>	<b>(99)</b>	<b>(650)</b>
<b>Net book value as at 1 January 2014</b>	<b>158</b>	<b>53</b>	<b>13</b>	<b>224</b>
<b>Net book value as at 31 December 2014</b>	<b>143</b>	<b>54</b>	<b>7</b>	<b>204</b>

<b>2014</b>				
<b>Bank</b>				
<b>Property and equipment (USD million)</b>				
<b>Cost:</b>				
<b>Cost as at 1 January 2014</b>	<b>529</b>	<b>235</b>	<b>118</b>	<b>882</b>
Additions	9	33	1	43
Disposals	(8)	(50)	(13)	(71)
<b>Cost as at 31 December 2014</b>	<b>530</b>	<b>218</b>	<b>106</b>	<b>854</b>
<b>Accumulated depreciation:</b>				
<b>Accumulated depreciation as at 1 January 2014</b>	<b>(371)</b>	<b>(182)</b>	<b>(105)</b>	<b>(658)</b>
Charge for the year	(21)	(32)	(7)	(60)
Disposals	5	50	13	68
<b>Accumulated depreciation as at 31 December 2014</b>	<b>(387)</b>	<b>(164)</b>	<b>(99)</b>	<b>(650)</b>
<b>Net book value as at 1 January 2014</b>	<b>158</b>	<b>53</b>	<b>13</b>	<b>224</b>
<b>Net book value as at 31 December 2014</b>	<b>143</b>	<b>54</b>	<b>7</b>	<b>204</b>

	Leasehold Improvements	Computer Equipment	Office Equipment	Total
<b>2013</b>				
<b>Group</b>				
<b>Property and equipment (USD million)</b>				
<b>Cost:</b>				
<b>Cost as at 1 January 2013</b>	<b>526</b>	<b>243</b>	<b>132</b>	<b>901</b>
Additions	5	35	2	42
Disposals	(2)	(43)	(16)	(61)
<b>Cost as at 31 December 2013</b>	<b>529</b>	<b>235</b>	<b>118</b>	<b>882</b>
<b>Accumulated depreciation:</b>				
<b>Accumulated depreciation as at 1 January 2013</b>	<b>(351)</b>	<b>(188)</b>	<b>(97)</b>	<b>(636)</b>
Charge for the year	(22)	(36)	(8)	(66)
Disposals	2	42	-	44
<b>Accumulated depreciation as at 31 December 2013</b>	<b>(371)</b>	<b>(182)</b>	<b>(105)</b>	<b>(658)</b>
<b>Net book value as at 1 January 2013</b>	<b>175</b>	<b>55</b>	<b>35</b>	<b>265</b>
<b>Net book value as at 31 December 2013</b>	<b>158</b>	<b>53</b>	<b>13</b>	<b>224</b>

<b>2013</b>				
<b>Bank</b>				
<b>Property and equipment (USD million)</b>				
<b>Cost:</b>				
<b>Cost as at 1 January 2013</b>	<b>526</b>	<b>243</b>	<b>117</b>	<b>886</b>
Additions	5	35	2	42
Disposals	(2)	(43)	(1)	(46)
<b>Cost as at 31 December 2013</b>	<b>529</b>	<b>235</b>	<b>118</b>	<b>882</b>
<b>Accumulated depreciation:</b>				
<b>Accumulated depreciation as at 1 January 2013</b>	<b>(351)</b>	<b>(188)</b>	<b>(97)</b>	<b>(636)</b>
Charge for the year	(22)	(36)	(8)	(66)
Disposals	2	42	-	44
<b>Accumulated depreciation as at 31 December 2013</b>	<b>(371)</b>	<b>(182)</b>	<b>(105)</b>	<b>(658)</b>
<b>Net book value as at 1 January 2013</b>	<b>175</b>	<b>55</b>	<b>20</b>	<b>250</b>
<b>Net book value as at 31 December 2013</b>	<b>158</b>	<b>53</b>	<b>13</b>	<b>224</b>

Leasehold improvements relate to improvements to land and buildings occupied by the Bank and its fellow subsidiaries for their own activities.

No interest has been capitalised within property and equipment (2013: USD Nil).

## 22 Intangible Assets

Group and Bank	Customer list <sup>1</sup>	Internally Developed Software	Total
<b>2014</b>			
<b>Intangible Assets (USD million)</b>			
<b>Cost:</b>			
<b>Cost as at 1 January 2014</b>	<b>5</b>	<b>1,221</b>	<b>1,226</b>
Additions	–	135	135
Disposals	–	(9)	(9)
<b>Cost as at 31 December 2014</b>	<b>5</b>	<b>1,347</b>	<b>1,352</b>
<b>Accumulated amortisation:</b>			
<b>Accumulated amortisation as at 1 January 2014</b>	<b>(1)</b>	<b>(791)</b>	<b>(792)</b>
Amortisation for the year	–	(198)	(198)
Impairment	–	(7)	(7)
Disposals	–	9	9
<b>Accumulated amortisation as at 31 December 2014</b>	<b>(1)</b>	<b>(987)</b>	<b>(988)</b>
<b>Net book value as at 1 January 2014</b>	<b>4</b>	<b>430</b>	<b>434</b>
<b>Net book value as at 31 December 2014</b>	<b>4</b>	<b>360</b>	<b>364</b>
<b>2013</b>			
<b>Cost:</b>			
<b>Cost as at 1 January 2013</b>	<b>5</b>	<b>1,075</b>	<b>1,080</b>
Additions	–	164	164
Disposals	–	(18)	(18)
<b>Cost as at 31 December 2013</b>	<b>5</b>	<b>1,221</b>	<b>1,226</b>
<b>Accumulated amortisation:</b>			
<b>Accumulated amortisation as at 1 January 2013</b>	<b>–</b>	<b>(615)</b>	<b>(615)</b>
Amortisation for the year	(1)	(173)	(174)
Impairment	–	(15)	(15)
Disposals	–	12	12
<b>Accumulated amortisation as at 31 December 2013</b>	<b>(1)</b>	<b>(791)</b>	<b>(792)</b>
<b>Net book value as at 1 January 2013</b>	<b>5</b>	<b>460</b>	<b>465</b>
<b>Net book value as at 31 December 2013</b>	<b>4</b>	<b>430</b>	<b>434</b>

<sup>1</sup> The customer list acquired in 2011 in the course of the PFS acquisition of USD 5 million has been accounted for to date as intangible assets with finite useful lives which is amortised on a straight-line basis over a period of thirteen years.

The recoverable amount of CSi's intangible assets is estimated based on their value-in-use. An assessment was performed in 2014, and the carrying amount of the certain intangible assets was determined to be higher than their recoverable amount of USD 1 million and an impairment loss of USD 7 million was recognised for the year ended 31 December 2014. The recoverable

amount for the Internally Developed Software is estimated based on its value-in-use. The value-in-use is calculated based on detailed reviews and specific information regarding the individual projects and their capitalisation. Semi-annual assessments are performed to calculate any required adjustment for impairment.

## 23 Deposits

Group and Bank	2014	2013
<b>Deposits (USD million)</b>		
Non-interest bearing demand deposits	2	12
Interest-bearing demand deposits	2,523	2,477
Time deposits	1,939	2,843
<b>Total deposits</b>	<b>4,464</b>	<b>5,332</b>
of which due to banks	2,360	2,965
of which due to customers	2,104	2,367

## 24 Short Term Borrowings

Group and Bank	2014	2013
<b>Short-term borrowings (USD million)</b>		
<b>Short term borrowings:</b>		
from banks	17,260	15,619
from customers	7	5
<b>Total short term borrowings</b>	<b>17,267</b>	<b>15,624</b>

## 25 Provisions

Group and Bank	Property	Litigation	Total
<b>2014</b>			
<b>Provisions (USD million)</b>			
Balance at 1 January 2014	4	10	14
Charges during the year	–	82	82
Released during the year	–	(24)	(24)
Utilised during the year	(1)	(57)	(58)
<b>Balance at 31 December 2014</b>	<b>3</b>	<b>11</b>	<b>14</b>
<b>2013</b>			
<b>Provisions (USD million)</b>			
Balance at 1 January 2013	4	20	24
Charges during the year	–	(2)	(2)
Released during the year	–	–	–
Utilised during the year	–	(8)	(8)
<b>Balance at 31 December 2013</b>	<b>4</b>	<b>10</b>	<b>14</b>

### Property provision

The property provision mainly relates to property reinstatement obligations that will be incurred when the leases expire.

Building	Provision	Utilisation period
17 Columbus Courtyard, London	USD 1 million	31 December 2024
5 Canada Square, London	USD 2 million	31 December 2027
Pall Mall, London	USD 1 million	31 March 2018

### Litigation provision

The CSI 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 reasonably estimable. 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 Bank is defending. The exact timing of outflow of economic benefits cannot be ascertained at 31 December 2014.



## 26 Long Term Debt

	Group		Bank	
	2014	2013	2014	2013
<b>Long-term debt (USD million)</b>				
Senior debt	16,582	11,730	16,590	11,741
Subordinated debt	8,391	9,713	8,391	9,713
<b>Total long term debt</b>	<b>24,973</b>	<b>21,443</b>	<b>24,981</b>	<b>21,454</b>

The decrease in subordinated debt was principally as a result of the net repayment of USD 1.3 billion lower Tier 2 subordinated loans. Senior debt has increased by USD 4.9 billion, as a result of changes to long term funding requirements.

Total long term debt is comprised of debt issuances managed by Treasury which do not contain derivative features (vanilla debt), as well as hybrid debt instruments with embedded derivatives, which are issued as part of the CSi group' structured activities.

## 27 Accumulated Other Comprehensive Income

Group and Bank	Gains/(losses) on cash flow hedges	Accumulated other com- prehensive income
<b>2014</b>		
<b>Accumulated other comprehensive income (USD million)</b>		
<b>Balance at 1 January 2014</b>	-	-
Increase/(decrease):		
Cash flow hedges – effective portion of changes in fair value	(4)	(4)
Cash flow hedges – reclassified to profit or loss	-	-
<b>Balance at 31 December 2014</b>	<b>(4)</b>	<b>(4)</b>
<b>2013</b>		
<b>Accumulated other comprehensive income (USD million)</b>		
<b>Balance at 1 January 2013</b>	-	-
Increase/(decrease):		
Cash flow hedges – effective portion of changes in fair value	-	-
Cash flow hedges – reclassified to profit or loss	-	-
<b>Balance at 31 December 2013</b>	<b>-</b>	<b>-</b>

## 28 Share Capital and Share Premium

Group and Bank	2014	2013
<b>Share Capital</b>		
<b>Allotted called-up and fully paid (USD)</b>		
131,076,560,047 Ordinary voting shares of USD 0.10 each (2013 : 125 shares)	13,107,656,005	13
Participating non-voting shares of USD 0.10 each (2013 : 131,076,559,922 shares)	-	13,107,655,992
<b>Total allotted called-up and fully paid capital</b>	<b>13,107,656,005</b>	<b>13,107,656,005</b>
<b>Share Premium (USD)</b>		
<b>Share Premium</b>	<b>12,698,984,345</b>	<b>12,698,984,345</b>

All participating non-voting shares were converted into ordinary voting shares in the second half of 2014. The ordinary shares have attached to them full voting, dividend and capital distribution (including on winding up) rights. There was a capital injection of USD 10 billion in 2013 which was in line with Bank's initiatives

to align the subsidiary's capital with the Capital Requirements Regulation ('CRR'). This was through the issue of Class B participating non-voting shares of USD 0.10 each to the existing shareholders in proportion to their shareholdings

## 29 Retirement Benefit Obligations

The following disclosures contain the balances for the entire defined benefit plan sponsored by Credit Suisse Securities (Europe) Limited ('CSSEL'), of which the Bank is one of many participants, who are all related parties under common control. The Bank accounts for its share of the plan using defined contribution accounting. During 2014 the Bank expensed USD 1.2 million (2013: USD 1.2 million) in respect of its contributions to the UK defined benefit scheme.

### Profile of the pension plans

Approximately 13% of the UK plan's final salary liabilities are attributable to current employees, 71% to former employees yet to

retire and 16% to current pensioners and dependants. The liabilities of the other plans in aggregate are broadly split 44% to current employees, 51% to former employees yet to retire and 5% to current pensioners and dependents. The UK plan duration is an indicator of the weighted-average time until benefits payments are made.

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

The following table shows the changes in the defined benefit obligation and the fair value of plan assets during 2014 and 2013, and the amounts included in CSSEL's consolidated financial statements for the defined benefit pension plan as at 31 December 2014 and 2013 respectively:

Group and Bank	2014	2013
<b>Defined benefit pension plans (USD million)</b>		
Defined benefit obligation – 1 January	1,684	1,508
Current service cost	5	5
Interest cost	77	69
Actuarial losses on assumptions	272	95
arising out of changes in demographic assumptions	–	(13)
arising out of changes in financial assumptions	272	108
Actuarial (gains)/ losses – experience	(25)	(5)
Benefit payments	(37)	(24)
Exchange rate (gains)/losses	(100)	36
<b>Defined benefit obligation – 31 December</b>	<b>1,876</b>	<b>1,684</b>
Fair value of plan assets – 1 January	2,265	2,159
Expected return on plan assets	104	100
Actuarial gains	501	(31)
<b>Actual return on plan assets</b>	<b>605</b>	<b>69</b>
Employer Contributions	9	9
Administrative expense	(2)	(2)
Benefit payments	(37)	(23)
Exchange rate losses/(losses)	(136)	53
<b>Fair value of plan assets – 31 December</b>	<b>2,704</b>	<b>2,265</b>

### Funding requirements

UK legislation requires that pension schemes are funded prudently. The last funding valuation of the UK plan was carried out by a qualified actuary as at 31 December 2011 and showed a deficit of GBP 61.2 million. The Bank and Trustee agreed that no future shortfall contributions would be paid because the shortfall contributions paid soon after the valuation date and the allowance for post-valuation experience were sufficient to recover the shortfall.

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

Contributions will be paid to cover administrative expenses, administration rebates and death in service pensions. Expected regular contributions to be paid to the UK defined benefit plan for all participating entities for the year ending 31 December 2015 is approximately USD 9 million.

## Assumptions

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

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

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

## Mortality Assumptions

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

The assumptions for life expectancy for the 2014 benefit obligation pursuant to IAS 19 are based on the 'SAPS light' base

table with improvements in mortality in line with the core CMI 2013 projections and a scaling factor of 100%. Underpins to future mortality improvement have also been incorporated, the annual long term rate of improvement being 1.25% p.a

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

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

## Sensitivity Analysis

Changes in the principal assumptions used to measure the benefit obligation cost would have had the following effects:

	Increase USD million	Increase %	Decrease USD million	Decrease %
<b>Benefit obligation</b>				
<b>One-percentage point change</b>				
- 1% / +1% Discount rate	518	28	(389)	-21
+1% / -1% Inflation rate	327	17	(276)	-15
+1% / -1% Salary increases rate	11	1	(10)	-1
+1 / -1 year to life expectancy at 60	40	2	(40)	-2

The sensitivity analysis above has been derived using a number of additional full valuation runs that have been carried out using the same data as that used for calculating the 2014 defined benefit obligation. The sensitivity analysis focuses on changes to the obligation. For the sensitivities to discount rate and inflation rates the impact on the UK funded status will most likely be lower than 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 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 Company's defined benefit pension plan looks to minimise risk subject to adopting an investment strategy that has a reasonable expectation of achieving a certain level of return by investing in a range of asset classes of appropriate liquidity and security which will generate income and capital growth to meet, together with agreed contributions from the Company, the cost of benefits. Risk tolerance is established through careful consideration of plan liabilities, plan funded status and corporate financial condition.

The Fund has a hedging target of around 80% of interest rate and inflation risk arising from the Economic Value of the liabilities. Guidelines have been put in place for the hedging portfolio to limit the risk between it and the basis on which the Economic Value of the liabilities is calculated. In particular limits have been placed on the level of exposure that may be obtained from bonds and gilt total return swaps, both in terms of interest rate and inflation sensitivity.

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

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

#### Risks Associated with UK Plan

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

##### Asset volatility

The liabilities are calculated using a discount rate set with reference to corporate bond yields; if assets underperform this yield, this will reduce the surplus. The UK plan holds a significant proportion of growth assets (equities, diversified growth fund and global absolute return fund) which, though expected to outperform

corporate bonds in the long-term, create volatility and risk in the short-term. The allocation to growth assets is monitored to ensure it remains appropriate given the UK plan's long term objectives.

##### Changes in bond yields

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

##### Inflation Risk

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

##### Life expectancy

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

	Defined Benefit Pension Plans UK Plans 2014
<b>Estimated future benefit payments (USD million)</b>	
2015	15
2016	17
2017	19
2018	22
2019	26
For five years thereafter	201

### Plan assets measured at fair value

	2014				2013			
	Quoted	Unquoted	Total	% of total fair value of scheme assets	Quoted	Unquoted	Total	% of total fair value of scheme assets
<b>Plan assets measured at fair value (USD million)</b>								
Cash and cash equivalents	–	256	256	9.5%	–	347	347	15.3%
Debt Securities	1,208	477	1,685	62.3%	1,002	425	1,427	63.0%
of which governments	565	5	570	21.1%	409	4	413	18.2%
of which corporates	643	472	1,115	41.2%	593	421	1,014	44.8%
Equity Securities	259	98	357	13.2%	192	2	194	8.6%
Derivatives	–	276	276	10.2%	1	(26)	(25)	(1.1%)
Alternative investments	–	130	130	4.8%	14	308	322	14.2%
of which hedge funds	–	130	130	4.8%	–	298	298	13.1%
of which other	–	–	–	–	14	10	24	1.1%
<b>Total plan assets UK Plans</b>	<b>1,467</b>	<b>1,237</b>	<b>2,704</b>	<b>100.0%</b>	<b>1,209</b>	<b>1,056</b>	<b>2,265</b>	<b>100.0%</b>
Debt Securities	9	–	9		11	–	11	100
<b>Total plan assets International Plans</b>	<b>9</b>	<b>–</b>	<b>9</b>	<b>100.0%</b>	<b>11</b>	<b>–</b>	<b>11</b>	<b>100</b>

### Defined Contribution Pension Plans

The Bank also contributes to various defined contribution pensions primarily in the United Kingdom. The contributions to these plans during 2014 and 2013 were USD 12 million per year.

### 30 Employee Share-based Compensation and Other Compensation Benefits

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

Compensation expense for share-based and other awards that were granted as deferred compensation is recognised in accordance with the specific terms and conditions of each respective award and is primarily recognised over the future requisite service and vesting period, which is determined by the plan, retirement eligibility of employees, two-year moratorium periods on early retirement and certain other terms. All deferred compensation plans are subject to non-compete and non-solicit provisions. Compensation expense for share based and other awards that were granted as deferred compensation also includes the current estimated outcome of applicable performance criteria, estimated future forfeitures and mark-to-market adjustments for certain awards that are still outstanding.

Total compensation expense for cash-settled share-based compensation plans recognised during 2014 and 2013 was USD 67 million and USD 127 million respectively. The total stock award liability recorded as at 31 December 2014 was USD 124 million (2013: USD 147 million). The fair value used to calculate the stock award liability was the closing Credit Suisse Group share price as at 31 December 2014 CHF 25.08 (2013: CHF 27.27).

The average weighted fair value of awards granted in 2014 was CHF 27.45 (2013: CHF 26.39). The intrinsic value of vested share based awards outstanding as at year end was USD 14 million (2013: USD 24 million).

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

### Performance Share Awards

Certain employees received a portion of their deferred variable compensation in the form of performance share awards, which are subject to explicit performance-related claw-back provisions. Each performance share award granted entitles the holder of award to receive one CSG share. Performance share awards also vest over three years, such that the performance share awards vest equally on each of the three anniversaries of the grant date. Unlike the Phantom share awards, however, the outstanding performance share awards are subject to a negative adjustment in the event of a divisional loss or a negative CSG ROE. Outstanding performance shares are subject to a negative adjustment in the event of a divisional loss, unless there is a negative CSG ROE that would call for a negative adjustment greater than the divisional adjustment for the year, in which case the negative adjustment is based on the CSG's negative ROE. For employees in Shared Services, the negative adjustment only applies in the event of a negative CSG ROE and is not linked to the performance of the divisions.

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

ROE and in 2012 were based on ROE, compared to the performance share awards granted in 2015 and 2014, which were based on strategic ROE.

The number of performance share awards granted to employees was determined by dividing the deferred component of variable compensation being granted as performance shares by the average price of a CSG share over the two business days ended January 16, 2015. The fair value of each January 2015 Performance

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

Movements in the number of PSA outstanding were as follows:

Group and Bank	2014	2013
<b>Number of units (millions)</b>		
As at 1 January	1.88	1.00
Granted	0.92	1.16
Shares transferred in/out	(0.08)	0.06
Delivered	(0.71)	(0.31)
Forfeited	(0.04)	(0.03)
<b>As at 31 December</b>	<b>1.97</b>	<b>1.88</b>

### Phantom Share Awards

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

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

The number of share awards was determined by dividing the deferred component of variable compensation being granted as

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

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

Movements in the number of units outstanding were as follows:

Group and Bank	2014	2013
<b>Number of units (millions)</b>		
As at 1 January	3.96	3.05
Granted	2.30	2.48
Shares transferred in/out	0.01	(0.04)
Delivered	(1.66)	(1.33)
Forfeited	(0.13)	(0.20)
<b>As at 31 December</b>	<b>4.48</b>	<b>3.96</b>



### Contingent Capital Awards

Contingent Capital Awards ('CCA') were granted in January 2015 and 2014 as part of 2014 and 2013 deferred variable compensation and have rights and risks similar to those of certain contingent capital instruments issued by CSG in the market. CCA provide a conditional right to receive semi-annual cash payments of interest equivalents at a rate of 4.82% and 4.75% per annum over the six-month Swiss franc London Interbank Offered Rate ('LIBOR') or 5.73% and 5.33% per annum over the six-month US dollar LIBOR, for Swiss franc and US Dollar denominated awards, for 2015 and 2014 respectively, until settled. Employees who received compensation in Swiss francs could elect to receive CCA denominated in Swiss francs or US dollars, and all other employees received CCA denominated in US dollars.

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

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

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

Total compensation expense recognised during the year ended 31 December 2014 was USD 8 million (2013: USD Nil).

### Plus Bond awards

Certain employees received a portion of their 2012 deferred variable compensation in the form of Plus Bond awards. The Plus Bond award is essentially a fixed income instrument, denominated in US dollars, which provides a coupon payment that is commensurate with market-based pricing. Plus Bond award holders are entitled to receive semi-annual cash payments on their adjusted award amounts at the rate of LIBOR plus 7.875% per annum until settlement. The Plus Bond will settle in the summer of 2016 based on the amount of the initial award less portfolio losses, if any, in excess of a first loss portion retained by CSG of USD 600 million. The value of the Plus Bond awards is based on the performance of a portfolio of unrated and sub-investment-grade asset-backed securities that are held in inventory by various trading desks of CSG's Investment Banking division. While the Plus Bond award is a cash-based instrument, CSG reserves the right to settle the award in CSG shares based on the share price at the time of final distribution. In addition, subject to oversight procedures, CSG

retains the right to prepay all or a portion of the Plus Bond award in cash at any time and, in the event of certain regulatory developments or changes on capital treatment, exchange the award into CSG shares. The Plus Bond award plan contributes to a reduction of CSG's risk-weighted assets and constitutes a risk transfer from CSG to the Plus Bond award holders. The Plus Bonds were fully vested and expensed on the grant date of December 31, 2012.

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

Total compensation expense recognised during the year ended December 31, 2014 was USD 1 million (2013: USD 1 million).

### 2011 Partner Asset Facility ('PAF2')

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

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

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

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

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

### Capital Opportunity Facility

Participants elect for their award to be referenced to a Capital Opportunity Facility ('COF'). The COF is a seven-year facility that is linked to the performance of a portfolio of risk-transfer and capital mitigation transactions, to be entered into with CSG, chosen by a COF management team. The value of the COF awards will be reduced if there are losses from the COF portfolio, up to the full amount of the award. Participants who elect the COF will receive semi-annual US dollar cash distributions of 6.5% per annum until settlement in cash in 2021, and such semi-annual distributions will reduce the cash settlement amount payable in 2021; and;

### Contingent Capital Awards

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

Total compensation expense recognised for the PAF2 award during the year ended December 31, 2014 was USD 1 million (2013: USD 4 million).

Total compensation expense recognised for the PAF2 CCA during the year ended December 31, 2014 was USD 2 million (2013: Nil).

Total compensation expense recognised for the COF during the year ended December 31, 2014 was USD 1 million (2013: Nil).

### Restricted Cash Awards

Certain employees received the cash component of their 2012 variable compensation in the form of Restricted Cash Awards. These awards are cash payments made on the grant date, but are subject to a pro-rata repayment by the employee in the event of voluntary resignation or termination for cause within three years of the award grant. The Restricted Cash Award is reported as part of the deferred compensation award for the Bank even though the award is fully settled at grant date. The expense recognition will occur over the three-year vesting period, subject to service conditions.

Movements in the number of APP shares outstanding were as follows:

Group and Bank	2014	2013
<b>APP Stock Awards (millions)</b>		
As at 1 January	0.27	0.81
Granted	-	-
Share transferred in/out	-	-
Delivered	(0.14)	(0.54)
Forfeited	-	-
<b>As at 31 December</b>	<b>0.13</b>	<b>0.27</b>

On January 17, 2013, the Bank granted Restricted Cash Awards.

Total compensation expense recognised during the year ended December 31, 2014 was 6 million (2013: USD 17 million).

### Adjustable Performance Plan Awards ('APPA')

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

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

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

Total compensation expense/ (income) recognised for APP cash awards during the year ended December 31, 2014 was USD 0.3 million (2013: USD (1) million).

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

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

The Scaled Incentive Share Units ('SISUs') plan is a share-based, long-term incentive plan. SISUs were granted in January 2010 as part of 2009 variable deferred compensation. SISUs are similar to ISUs (refer to Incentive Share Unit) except with four-year vesting, subject to early retirement rules, and the leverage component contains an additional performance condition which could increase or decrease the number of any additional shares. The SISU base unit vests equally on each of the four anniversaries of the grant date, whereas the SISU leverage unit will only vest on the fourth anniversary of the grant date. The new performance condition links the final delivery of additional shares to an average of the reported CSG ROE. If the CSG average ROE over the four-year period is higher than a pre-set target established at the grant date, the number of additional shares calculated by reference to the average CSG share price increase will be adjusted positively, and if

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

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

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

Movements in the number of SISUs outstanding were as follows:

	2014		2013	
	Base	Leverage	Base	Leverage
<b>SISU Awards (USD million)</b>				
As at 1 January	0.30	0.73	0.60	0.91
Granted	-	-	-	-
Share transferred in/out	-	-	-	0.01
Delivered	(0.30)	(0.73)	(0.29)	-
Forfeited	-	-	(0.01)	(0.19)
<b>As at 31 December</b>	<b>-</b>	<b>-</b>	<b>0.30</b>	<b>0.73</b>

### Incentive Share Unit ('ISU')

The Incentive Share Units ('ISUs') were the main form of share-based deferred compensation for all employees from 2006 to 2009. An ISU is similar to a share, but offers additional upside depending on the development of the CSG share price, compared to predetermined targets set on the grant date. For each ISU granted, the employee will receive at least one CSG share (ISU base unit) over a three-year period vesting and could receive additional shares (ISU leverage unit) at the end of the three-year vesting period. The number of ISU leverage units to be converted to additional shares is calculated by multiplying the total number of ISU base units granted, less forfeitures, by a share price multiplier. The share price multiplier is determined based on the actual

increase in the weighted-average monthly share price during the contractual term of the award versus the share price at grant date. The ISU base unit vests equally on each of the three anniversaries of the grant date, whereas the ISU leverage units will only vest on the third anniversary of the grant date. Shares are delivered shortly after the ISU base units and the ISU leverage units vest.

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

Movements in the number of ISUs outstanding were as follows:

Group and Bank	2014		2013	
	Base	Leverage	Base	Leverage
<b>ISU Awards (millions)</b>				
As at 1 January	-	-	0.11	0.31
Granted	-	-	-	-
Share transferred in/out	-	-	-	-
Delivered	-	-	(0.10)	(0.31)
Forfeited	-	-	(0.01)	-
<b>As at 31 December</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>

**2008 Partner Asset Facility ('PAF')**

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 are indexed to, and represent a first-loss interest in, a specified pool of illiquid assets (Asset Pool) that originated in Investment Banking.

The notional value of the Asset Pool was based on the fair market value of the assets within the Asset Pool on December 31, 2008, and those assets will remain static throughout the contractual term of the award or until liquidated. The PAF holders will participate in the potential gains on the Asset Pool if the assets within the pool are liquidated at prices above the initial fair market value. If the assets within the Asset Pool are liquidated at prices below the initial fair market value, the PAF holders will bear the first loss on the Asset Pool. As a result, a significant portion of risk positions associated with the Asset Pool has been transferred to the employees and removed from CSG's risk-weighted assets, resulting in a reduction in capital usage.

The PAF awards, which have a contractual term of eight years, are fully vested. Each PAF holder will receive a semi-annual cash interest payment of LIBOR plus 250 basis points applied to the notional value of the PAF award granted throughout the contractual term of the award. Beginning in the fifth year after the grant

date, the PAF holders will receive an annual cash payment equal to 20% of the notional value of the PAF awards if the fair market value of the Asset Pool in that year has not declined below the initial fair market value of the Asset Pool. In the final year of the contractual term, the PAF holders will receive 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.

In June 2012, existing PAF holders were given a voluntary election to make a value-for-value exchange of their existing PAF awards for a new PAF award linked to an expanded portfolio of reference assets. The new PAF awards are subject to the same contractual term, vesting period, performance criteria, settlement and other terms and conditions as the original PAF awards and constitute an additional risk transfer to employees on the expanded portfolio of assets that was removed from CSG's risk-weighted assets, resulting in a reduction in capital usage. Compensation expense for the new PAF awards will be updated at each reporting period date to reflect any change in the underlying fair value of the expanded portfolio of reference assets in addition to the original portfolio of PAF assets until the awards are finally settled. There was no impact on compensation expense on the exchange dates.

Total compensation expense recognised during the year ended December 31, 2014 was USD 11 million (2013: USD 11 million).

### 31 Related Parties

The CSi group is controlled by CSG, its ultimate parent, which is incorporated in Switzerland. The CSi group's parent company, which holds a majority of the voting rights in the undertaking, is Credit Suisse AG, which is incorporated in Switzerland.

The CSi group has significant related party balances with subsidiaries and affiliates of CSG. These transactions largely comprise derivative trades, as the Bank is the principal risk taker for derivatives within the CS group, as well as funding trades via use of loans or deposits, repurchase or repurchase agreements. In addition, the ordinary shares are issued to CSG and subsidiaries of CSG, as outlined in Note 28 – Share Capital and Share Premium. The Bank is also charged for operating costs that mainly relate to

employee-related services and other business expenses. Further, these transactions also include transfer pricing income/charges with CS group entities that provide services in respect of the global derivatives business which is centrally booked in the Bank.

The Bank generally enters into the above transactions in the ordinary course of business on market terms that could be obtained from unrelated parties.

In addition to the above, liabilities due to the CS group's own defined benefit pension funds as of 31 December 2014 of USD NIL (2013: USD 13 million) are reflected in the CSi group's Consolidated Statement of Financial Position.

#### a) Related party assets and liabilities

Group	31 December 2014			31 December 2013 <sup>1</sup>		
	Parent	Fellow group companies	Total	Parent	Fellow group companies	Total
<b>Assets (USD million)</b>						
Cash and due from banks	6	13,387	13,393	–	25,715	25,715
Interest-bearing deposits with banks	–	165	165	–	285	285
Securities purchased under resale agreements and securities borrowing transactions	–	33,477	33,477	–	20,988	20,988
Trading financial assets at fair value through profit or loss	3,642	38,031	41,673	2,681	38,336	41,017
Financial assets designated at fair value through profit or loss	–	4,221	4,221	1	7,582	7,583
Other loans and receivables	–	2,992	2,992	–	3,589	3,589
Other assets	17	7,400	7,417	8	5,718	5,726
<b>Total assets</b>	<b>3,665</b>	<b>99,673</b>	<b>103,338</b>	<b>2,690</b>	<b>102,213</b>	<b>104,903</b>
<b>Liabilities (USD million)</b>						
Deposits	–	1,708	1,708	–	2,410	2,410
Securities sold under repurchase agreements and securities lending transactions	–	8,383	8,383	–	4,445	4,445
Trading liabilities at fair value through profit or loss	1,190	37,667	38,857	1,358	39,745	41,103
Financial liabilities designated at fair value through profit or loss	4	10,613	10,617	7	9,350	9,357
Short term borrowings	–	17,264	17,264	–	15,623	15,623
Long term debt	1,100	23,639	24,739	1,100	20,216	21,316
Other liabilities	1	4,369	4,370	14	14,467	14,481
Share capital	3,290	9,818	13,108	3,290	9,818	13,108
Share premium	4,105	8,594	12,699	4,105	8,594	12,699
<b>Total liabilities</b>	<b>9,690</b>	<b>122,055</b>	<b>131,745</b>	<b>9,874</b>	<b>124,668</b>	<b>134,542</b>

<sup>1</sup> On 1 January 2014, CSi group adopted amendments to IAS 32 "Offsetting Financial Assets and Financial Liabilities" (IAS 32). Comparative information has been restated accordingly (See Note 2).

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

Bank	31 December 2014				31 December 2013			
	Parent	Fellow group companies	Subsidiaries	Total	Parent	Fellow group companies	Subsidiaries	Total
<b>Assets (USD million)</b>								
Cash and due from banks	6	13,387	–	13,393	–	25,715	–	25,715
Intangible assets	–	–	–	–	–	–	–	–
Interest-bearing deposits with banks	–	165	–	165	–	285	–	285
Securities purchased under resale agreements and securities borrowing transactions	–	33,477	–	33,477	–	20,988	–	20,988
Trading assets at fair value through profit or loss	3,642	38,031	506	42,179	2,681	38,336	833	41,850
Financial assets designated at fair value through profit or loss	–	4,221	–	4,221	1	7,582	–	7,583
Other loans and receivables	–	2,992	–	2,992	–	3,589	–	3,589
Other assets	17	7,400	14	7,431	8	5,705	–	5,713
Investments in subsidiary undertakings	–	–	10	10	–	–	10	10
Current tax assets	–	–	–	–	–	–	–	–
<b>Total assets</b>	<b>3,665</b>	<b>99,673</b>	<b>530</b>	<b>103,868</b>	<b>2,690</b>	<b>102,200</b>	<b>843</b>	<b>105,733</b>
<b>Liabilities (USD million)</b>								
Deposits	–	1,708	–	1,708	–	2,410	–	2,410
Securities sold under repurchase agreements and securities lending transactions	–	8,383	–	8,383	–	4,445	–	4,445
Trading liabilities at fair value through profit or loss	1,190	37,667	21	38,878	1,358	39,655	183	41,196
Financial liabilities designated at fair value through profit or loss	4	10,613	15	10,632	7	9,350	–	9,357
Short term borrowings	–	17,264	–	17,264	–	15,623	–	15,623
Long term debt	1,100	23,639	9	24,748	1,100	20,216	52	21,368
Other liabilities	1	4,369	11	4,381	14	14,467	–	14,481
Share capital	3,290	9,818	–	13,108	3,290	9,818	–	13,108
Share premium	4,105	8,594	–	12,699	4,105	8,594	–	12,699
<b>Total liabilities</b>	<b>9,690</b>	<b>122,055</b>	<b>56</b>	<b>131,801</b>	<b>9,874</b>	<b>124,578</b>	<b>235</b>	<b>134,687</b>

<sup>1</sup> On 1 January 2014, CSi group adopted amendments to IAS 32 "Offsetting Financial Assets and Financial Liabilities" (IAS 32). Comparative information has been restated accordingly (See Note 2).

**b) Related party revenues and expenses**

Group (USD million)	31 December 2014			31 December 2013		
	Parent	Fellow group companies	Total	Parent	Fellow group companies	Total
Interest income	–	295	295	–	291	291
Interest expense	(36)	(515)	(551)	(18)	(735)	(753)
<b>Net interest expense</b>	<b>(36)</b>	<b>(220)</b>	<b>(256)</b>	<b>(18)</b>	<b>(444)</b>	<b>(462)</b>
Commissions and fees	–	(107)	(107)	–	(134)	(134)
Revenue sharing agreements expense	(9)	(432)	(441)	(17)	(489)	(506)
Other Revenue	–	1	1	–	5	5
<b>Total non-interest revenues</b>	<b>(9)</b>	<b>(538)</b>	<b>(547)</b>	<b>(17)</b>	<b>(618)</b>	<b>(635)</b>
<b>Net operating income</b>	<b>(45)</b>	<b>(758)</b>	<b>(803)</b>	<b>(35)</b>	<b>(1,062)</b>	<b>(1,097)</b>
<b>Total operating expenses</b>	<b>(3)</b>	<b>(130)</b>	<b>(133)</b>	<b>(1)</b>	<b>(119)</b>	<b>(120)</b>



## c) Remuneration

### Remuneration of Directors

(USD '000)	2014	2013
Emoluments	2,738	2,342
Long term incentive schemes:		
Amounts Paid under Deferred Cash Awards	867	2,050
Amounts Delivered under Share Based Awards	3,038	5,729
<b>Total</b>	<b>6,643</b>	<b>10,121</b>
Compensation for loss of office	–	702
Bank's contributions to defined contribution	27	57
Bank's contributions to defined benefit	7	47
Bank's contributions to defined benefits lump sum	70	179
<b>Total</b>	<b>6,747</b>	<b>11,106</b>

Emoluments include amounts paid to or receivable by the Directors. Only vested Cash Retention Awards are included in emoluments. Long term incentive schemes consist of deferred cash awards and share based awards. Deferred cash awards are included in the period when the amounts vest and are paid, and share based awards are included in the period when the amounts vest and are delivered.

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

The aggregate of emoluments and deferred cash awards paid to or receivable by the highest paid director was USD 2,547,000

(2013: USD 2,936,000). The director was also a member of a defined contribution pension plan and the contribution paid during the year into the plan was USD 6,000 (2013: USD 3,000). There were no contributions made for defined benefit lump sum (2013: USD 179,000). During the year the highest paid director also received an entitlement to shares under a long term incentive scheme.

The amounts included in the Companies Act disclosures are on a different basis than the recognition requirements of IFRS 2 and IAS 37 and the disclosure requirements of IAS 24. The aggregate amount of remuneration accrued in the Bank's accounts for directors in accordance with IFRS requirements for 2014 was USD 6,043,000 (2013: USD 10,070,000).

### d) Number of Directors and Benefits

(Number of Directors)	2014	2013
Retirement benefits are accruing to the following number of Directors under:		
Defined contribution schemes	4	3
No scheme	3	3
Both defined contribution and defined benefit	1	1
Both defined contribution and defined benefit lump sum	1	–
<b>Directors in respect of whom services were received or receivable under long term incentive scheme</b>	<b>9</b>	<b>7</b>

### e) Remuneration of Key Management Personnel

(USD' 000)	2014	2013
<b>Remuneration of Key Management Personnel</b>		
Emoluments	6,335	6,059
Long term incentive schemes	7,712	14,457
<b>Total</b>	<b>14,047</b>	<b>20,516</b>
Compensation for loss of office	–	541
Bank's contributions to defined contribution plan	121	161
Bank's contributions to defined benefit	21	82
Bank's contributions to defined benefit Lump sum	263	345
<b>Total</b>	<b>14,452</b>	<b>21,645</b>

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

Where Key Management Personnel perform services for a number of companies within the CS group, the total remuneration

payable to each key management person has been apportioned to the respective entities based on a time spent per company allocation for that key management person.

### CSG Shares awarded to Key Management Personnel

	2014	2013
Number of shares	415,619	579,419

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

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

Key management personnel include Directors and the members the UK Investment Bank Executive Committee.

### f) Loans and Advances to Directors and Key Management Personnel

Loans outstanding to or due from Directors or key management personnel of the CSi group at 31 December 2014 were USD 2,000 (2013: USD Nil).

## 32 Employees

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

Group and Bank (Number)	2014	2013
Investment banking	437	448
Shared services	224	279
<b>Total</b>	<b>661</b>	<b>727</b>

The CSi group receives a range of services from related companies, in particular from fellow subsidiary Credit Suisse Securities (Europe) Limited which is the primary Credit Suisse employing entity in the UK. The headcount related to these services cannot

be accurately ascertained and is not therefore included in the above numbers. Staff costs and staff numbers do not differ between Bank and CSi group.

### 33 Derivatives and Hedging Activities

Derivatives are generally either privately negotiated OTC contracts or standard contracts transacted through regulated exchanges. The Bank'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 Bank 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 Bank designates the derivative as belonging to one of the following categories:

- a trading activity;
- 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.

The following table sets forth details of trading and hedging derivatives instruments:

Group	31 December 2014				31 December 2013			
	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
<b>Trading and hedging derivatives instruments (USD million)</b>								
Forwards and forward rate agreements	3,732	3,950	–	–	1,743	1,792	–	–
Swaps	406,504	397,514	–	–	457,231	450,068	–	–
Options bought and sold (OTC)	66,977	64,592	–	–	49,872	50,482	–	–
Options bought and sold (traded)	118	45	–	–	276	69	–	–
<b>Interest rate products</b>	<b>477,331</b>	<b>466,101</b>	<b>–</b>	<b>–</b>	<b>509,122</b>	<b>502,411</b>	<b>–</b>	<b>–</b>
Forwards and forward rate agreements	22,500	22,294	–	4	18,892	18,520	–	–
Swaps	41,582	52,202	–	–	33,221	45,237	–	–
Options bought and sold (OTC)	20,292	22,239	–	–	13,885	14,319	–	–
<b>Foreign exchange products</b>	<b>84,374</b>	<b>96,735</b>	<b>–</b>	<b>4</b>	<b>65,998</b>	<b>78,076</b>	<b>–</b>	<b>–</b>
Forwards and forward rate agreements	2	10	–	–	2	1	–	–
Swaps	6,496	6,749	–	–	7,358	8,415	–	–
Options bought and sold (OTC)	9,752	9,681	–	–	13,035	13,257	–	–
Options bought and sold (traded)	10,877	11,853	–	–	15,777	15,743	–	–
<b>Equity/indexed-related products</b>	<b>27,127</b>	<b>28,293</b>	<b>–</b>	<b>–</b>	<b>36,172</b>	<b>37,416</b>	<b>–</b>	<b>–</b>
Swaps	31,079	30,606	–	–	34,540	34,771	–	–
Options bought and sold (OTC)	92	48	–	–	63	25	–	–
<b>Credit products</b>	<b>31,171</b>	<b>30,654</b>	<b>–</b>	<b>–</b>	<b>34,603</b>	<b>34,796</b>	<b>–</b>	<b>–</b>
Forwards and forward rate agreements	688	692	–	–	617	800	–	–
Swaps	3,921	4,684	–	–	1,831	1,860	–	–
Options bought and sold (OTC)	1,470	1,613	–	–	1,032	1,080	–	–
Options bought and sold (traded)	190	78	–	–	800	951	–	–
<b>Other products</b>	<b>6,269</b>	<b>7,067</b>	<b>–</b>	<b>–</b>	<b>4,280</b>	<b>4,691</b>	<b>–</b>	<b>–</b>
<b>Trading derivative instruments</b>	<b>626,272</b>	<b>628,850</b>	<b>–</b>	<b>4</b>	<b>650,175</b>	<b>657,390</b>	<b>–</b>	<b>–</b>

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

Bank	31 December 2014						31 December 2013	
	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
<b>Trading and hedging derivatives instruments (USD million)</b>								
Forwards and forward rate agreements	3,732	3,950	-	-	1,743	1,792	-	-
Swaps	406,659	397,667	-	-	457,530	450,083	-	-
Options bought and sold (OTC)	66,977	64,592	-	-	49,872	50,482	-	-
Options bought and sold (traded)	118	45	-	-	276	69	-	-
<b>Interest rate products</b>	<b>477,486</b>	<b>466,254</b>	<b>-</b>	<b>-</b>	<b>509,421</b>	<b>502,426</b>	<b>-</b>	<b>-</b>
Forwards and forward rate agreements	22,500	22,294	-	4	18,891	18,520	-	-
Swaps	41,582	52,202	-	-	33,309	45,247	-	-
Options bought and sold (OTC)	20,292	22,239	-	-	13,885	14,319	-	-
<b>Foreign exchange products</b>	<b>84,374</b>	<b>96,735</b>	<b>-</b>	<b>4</b>	<b>66,085</b>	<b>78,086</b>	<b>-</b>	<b>-</b>
Forwards and forward rate agreements	2	10	-	-	2	1	-	-
Swaps	6,496	6,749	-	-	7,358	8,563	-	-
Options bought and sold (OTC)	9,752	9,681	-	-	13,035	13,257	-	-
Options bought and sold (traded)	10,877	11,853	-	-	15,777	15,743	-	-
<b>Equity/indexed-related products</b>	<b>27,127</b>	<b>28,293</b>	<b>-</b>	<b>-</b>	<b>36,172</b>	<b>37,564</b>	<b>-</b>	<b>-</b>
Swaps	31,079	30,606	-	-	34,540	34,771	-	-
Options bought and sold (OTC)	92	48	-	-	63	25	-	-
<b>Credit products</b>	<b>31,171</b>	<b>30,654</b>	<b>-</b>	<b>-</b>	<b>34,603</b>	<b>34,796</b>	<b>-</b>	<b>-</b>
Forwards and forward rate agreements	688	692	-	-	623	809	-	-
Swaps	3,921	4,684	-	-	1,831	1,860	-	-
Options bought and sold (OTC)	1,470	1,613	-	-	1,032	1,211	-	-
Options bought and sold (traded)	190	78	-	-	800	951	-	-
<b>Other products</b>	<b>6,269</b>	<b>7,067</b>	<b>-</b>	<b>-</b>	<b>4,286</b>	<b>4,831</b>	<b>-</b>	<b>-</b>
<b>Trading derivative instruments</b>	<b>626,427</b>	<b>629,003</b>	<b>-</b>	<b>4</b>	<b>650,567</b>	<b>657,703</b>	<b>-</b>	<b>-</b>

Group	2014		2013	
	Positive replacement value	Negative replacement value	Positive replacement value	Negative replacement value
<b>Replacement values (USD million)</b>				
Replacement values (trading) before netting	626,272	628,850	650,175	657,390
Replacement values (trading) after netting	389,218	396,949	355,251	364,892

Bank	2014		2013	
	Positive replacement value	Negative replacement value	Positive replacement value	Negative replacement value
<b>Replacement values (USD million)</b>				
Replacement values (trading) before netting	626,427	629,003	650,567	657,703
Replacement values (trading) after netting	389,373	397,101	355,643	365,205

### Trading Activities

The Bank 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, positioning and arbitrage activities. The majority of the Bank's derivatives held as at 31 December 2014 were used for trading activities.

### Cash Flow Hedges

CSi uses derivatives to hedge its cash flows associated with forecasted transactions.

	2014	2013
<b>Fair value of derivative instruments designated as cash flow hedges</b>		
Assets	–	–
Liabilities	4	–

The following table indicates the periods when hedged cash flows are expected to occur and when they are expected to affect the consolidated statement of income.

	Within 3 months	3 Months to 1 year	1 Year to 5 years	Over 5 years
<b>2014 (USD million)</b>				
<b>Net loss</b>				
Cash inflows from assets/revenues	–	–	–	–
Cash outflows from liabilities/expenses	23	70	–	–
<b>Net cash flows</b>	23	70	–	–
<b>2013 (USD million)</b>				
<b>Net loss</b>				
Cash inflows from assets/revenues	–	–	–	–
Cash outflows from liabilities/expenses	–	–	–	–
<b>Net cash flows</b>	–	–	–	–

Refer to "Note 27 – Accumulated other comprehensive income" for further information on balances recognised in AOCI related to cash flow hedges and on gains/losses recognised in AOCI in respect of effective cash flow hedges.

### Hedge effectiveness assessment

The CSi 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 CSi 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 CSi group to determine whether or not the hedging relationship has actually been effective. If the CSi 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.

### Disclosures relating to contingent credit risk

Certain of the Bank's derivative instruments contain provisions that require it to maintain a specified credit rating from each of the major

### Economic Hedges

Economic hedges arise when the CSi 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;
- 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; and
- credit derivatives to manage credit risk on certain loan portfolios.

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 Bank. The Bank 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.

### 34 Guarantees and Commitments

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

Group and Bank	Maturity				Total gross amount	Collateral received	Net of collateral
	<1 year	1-3 years	3-5 years	>5 years			
<b>31 December 2014</b>							
<b>Guarantees (USD million)</b>							
Credit guarantees and similar instruments	10	85	–	50	145	1	144
Performance guarantees and similar instruments	386	254	100	–	740	–	740
Other Guarantees	–	353	–	–	353	–	353
<b>Total guarantees</b>	<b>396</b>	<b>692</b>	<b>100</b>	<b>50</b>	<b>1,238</b>	<b>1</b>	<b>1,237</b>

Group and Bank	Maturity				Total gross amount	Collateral received	Net of collateral
	<1 year	1-3 years	3-5 years	>5 years			
<b>31 December 2014</b>							
<b>Other commitments (USD million)</b>							
Irrevocable commitments under documentary credit	16	–	–	–	16	–	16
Loan commitments	2,605	4,860	1,762	336	9,563	6,303	3,260
Other Commitments – Commitments to purchase cash securities <1 year	1,555	–	–	–	1,555	–	1,555
<b>Total other commitments</b>	<b>4,176</b>	<b>4,860</b>	<b>1,762</b>	<b>336</b>	<b>11,134</b>	<b>6,303</b>	<b>4,831</b>

Group and Bank	Maturity				Total gross amount	Collateral received	Net of collateral
	<1 year	1-3 years	3-5 years	>5 years			
<b>31 December 2013</b>							
<b>Guarantees (USD million)</b>							
Credit guarantees and similar instruments	828	662	68	50	1,608	552	1,056
Performance guarantees and similar instruments	4	–	–	10	14	14	–
<b>Total guarantees</b>	<b>832</b>	<b>662</b>	<b>68</b>	<b>60</b>	<b>1,622</b>	<b>566</b>	<b>1,056</b>

Group and Bank	Maturity				Total gross amount	Collateral received	Net of collateral
	<1 year	1-3 years	3-5 years	>5 years			
<b>31 December 2013</b>							
<b>Other commitments (USD million)</b>							
Irrevocable commitments under documentary credit	–	20	–	–	20	–	20
Loan commitments	4,342	3,190	2,031	38	9,601	5,920	3,681
Other Commitments – Commitments to purchase cash securities <1 year	2,878	–	–	–	2,878	–	2,878
<b>Total other commitments</b>	<b>7,220</b>	<b>3,210</b>	<b>2,031</b>	<b>38</b>	<b>12,499</b>	<b>5,920</b>	<b>6,579</b>

Credit guarantees are contracts that require the CSI 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 CSI 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 fulfill its obligation under a borrowing arrangement or other contractual obligation.

Performance guarantees and similar instruments are arrangements that require contingent payments to be made when certain performance-related targets or covenants are not met. Such covenants may include a customer's obligation to deliver certain products and services or to perform under a construction contract. Performance-related guarantees are frequently executed as part of project finance transactions.



Other Guarantees consist of an indemnity that Credit Suisse International has provided to Credit Suisse Securities (Europe) Limited with respects to potential funding requests of up to a maximum of USD 353 million in relation to the UK Pension Fund for the period starting 16th June 2014 and ending 31st May 2016. Credit Suisse International is receiving a fee of USD 44 million in monthly instalments for this indemnity.

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

Commitment to purchase cash securities represents the value of debt and equity cash security contracts which requires CSi 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:

Group and Bank	2014	2013
<b>Operating lease commitments (USD million)</b>		
Up to 1 year	101	107
From 1 year and no later than 5 years	404	426
From 5 years and over	1,005	1,181
<b>Future operating lease commitments</b>	<b>1,510</b>	<b>1,714</b>
Less minimum non-cancellable sublease rentals	(73)	(106)
<b>Total net future minimum operating lease commitments</b>	<b>1,437</b>	<b>1,608</b>

The future operating lease commitments include service charges of USD 22 million (2013: USD 22 million).

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

Group and Bank	2014	2013
<b>Net rental expense (USD million)</b>		
Minimum rentals	98	106
Sublease rental income	(67)	(89)
<b>Total net rental expenses</b>	<b>31</b>	<b>17</b>

### Contingent Liabilities and Other Commitments

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

In July 2013, the Directorate General for Competition of the European Commission ('DG Comp') issued a Statement of Objections ('SO') to various entities of thirteen CDS dealer banks, certain market entities and the International Swaps and Derivatives Association, Inc. ('ISDA') in relation to its investigation into possible violations of competition law by certain CDS market participants. Certain Credit Suisse entities were among the named bank entities. The SO marks the commencement of enforcement proceedings in respect of what DG Comp alleges were unlawful attempts to prevent the development of exchange traded platforms for CDS between 2006 and 2009. In addition, certain Credit Suisse entities, as well as other banks, have been named in civil litigation in the US. Further, Credit Suisse (USA), Inc. has received civil investigative demands from the United States Department of Justice.

CSi is the defendant in English court litigation brought by Rosserlane Consultants Limited and Swinbrook Developments Limited

(the claimants). The litigation relates to the forced sale by the Issuer in 2008 of Caspian Energy Group LP ('CEG'), the vehicle through which the claimants held a 51% stake in the Kyurovdag oil and gas field in Azerbaijan. CEG was sold for USD 245 million following two unsuccessful M&A processes. The claimants allege that CEG should have been sold for at least USD 700 million. CSi is vigorously defending the claims, which it believes are without merit. The trial commenced in October 2014 and on 20 February 2015 the case was dismissed and judgment given in favour of CSi.

CSi is defending a EUR 170 million claw back claim brought by the Winding Up Committee ('WUC') of the Icelandic bank Kaupthing in respect of its purchase of ten Credit Linked Notes issued in 2008. The WUC also claims significant 'penalty interest' under Icelandic legislation. A primary defense is that the relevant transactions are governed by English law, which does not provide a legal basis for such claw back actions. In October 2014, a non-binding decision was issued by the Court of the European Free Trade Association States which supports the position that the governing law of the transaction is relevant. Separately, CSi is pursuing a claim for USD 226 million in the Icelandic courts against Kaupthing's WUC in respect of the enforcement of certain security arising under a 2007 structured trade entered into between the parties via an SPV. These matters are currently expected to come to trial in 2017.

On 16 June 2014 the UK Financial Conduct Authority imposed a financial penalty of GBP 2 million against CSi in respect of inadequacies relating to the prominence of the maximum return and the explanation of the early exit fee in certain financial promotions for capital protected structured deposit products sold to UK retail customers between November 2009 and June 2012. CSi is also required to conduct a past business review (in conjunction with distributors of the products) under which affected retail customers will be eligible to claim compensation. CSi does not believe that

the likely costs of the past business review will materially impact its financial position.

On 21 October 2014 the European Commission announced it had entered into a settlement with various Credit Suisse entities including CSi in relation to its findings that Credit Suisse, UBS, RBS and JP Morgan had operated a cartel on bid-ask spreads of Swiss Franc interest rate derivatives in the European Economic Area in the period May to September 2007. The Commission imposed a fine of EUR 9 million on the Credit Suisse entities.

### 35 Interests in Other Entities

#### Subsidiaries

##### Composition of the CSi Group

Subsidiaries are entities (including structured entities) controlled by the CSi group. The CSi 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 the significant subsidiaries the CSi group owns, directly or indirectly. For completeness purposes, the table below lists all subsidiaries and structured entities that the CSi group consolidates.

## Composition of the Group

Company Name	Domicile	Currency	Percentage of ownership held 2014	Percentage of ownership held 2013
<b>31 December 2014 (USD million)</b>				
Credit Suisse First Boston International (USA), Inc.	United States of America	USD	100	100
CSFB International Trading L.L.C.	United States of America	USD	100	100
Prime Nominees (Ireland) Ltd	Ireland, Republic of	USD	100	100
Prime Nominees (Asia) Ltd	Ireland, Republic of	USD	100	100
Credit Suisse Bond Fund	Ireland, Republic of	EUR	100	100
Credit Suisse Backwardation Fund	Ireland, Republic of	USD	100	–
Credit Suisse Man Crystal Fund	Ireland, Republic of	USD	100	100
Custom Markets PLC	Ireland, Republic of	USD	100	100
Custom Markets PLC – Credit Suisse Movers Fund	Ireland, Republic of	EUR	100	100
Custom Markets QIF PLC	Ireland, Republic of	USD	100	–
HOLT Emerging Markets Equity Fund	Ireland, Republic of	USD	100	100
Man Global Strategies Investment Strategies Ltd: Class H Man IP 220 EUR Index Shares	Bermuda	EUR	100	100
Culross Global SPC Limited – Culross UCITS Index Segregated Portfolio	British Virgin Islands	USD	100	100
Crown RF Segregated Portfolio	Cayman Islands	USD	100	100
AHL Investment Strategies SPC – Class F3 Global Futures 9 EUR Notes	Cayman Islands	USD	100	100
AI3 Segregated Portfolio	Cayman Islands	USD	100	100
Brevan Howard Multi-Manager Limited	Cayman Islands	USD	100	100
Eastern Olympiad Fund I Ltd	Cayman Islands	USD	100	100
Ecureil Vie – Separate Account (EV) Segregated Portfolio	Cayman Islands	USD	100	100
Mistral SPC	Cayman Islands	USD	100	100
Mistral SPC – Long/Short Equity	Cayman Islands	USD	100	100
RPM SPC – Enhanced Risk Segregated Portfolio	Cayman Islands	USD	100	100
RPM SPC – Global Futures Selection Enhanced Risk Segregated Portfolio	Cayman Islands	USD	100	100
SAPIC Global Macro Master Fund Ltd.	Cayman Islands	USD	100	–
SAPIC Global Macro Fund Ltd	Cayman Islands	USD	100	–
SAPIC III Master Fund	Cayman Islands	USD	100	100
SAPIC-98 MASTER FUND	Cayman Islands	USD	100	100
SAPIC-98 REFERENCE FUND (55) LIMITED	Cayman Islands	EUR	100	100
SAPIC-98 REFERENCE FUND (56) LIMITED	Cayman Islands	EUR	100	100
Simplon Capital Ltd. SPC – AlphaAlgo Segregated Fund Portfolio	Cayman Islands	EUR	100	100
Xanthos Arrow Index Trust	Cayman Islands	USD	100	–
Zephyros Limited	Cayman Islands	USD	100	100
Coxaro Holdings Limited	Cyprus	USD	100	100
CARMF Alternative 1	France	USD	100	100
Le Meilleur de Profilio	France	USD	100	–
Bondstreet 2 GmbH	Germany	USD	100	–
Ajanta Limited	Gibraltar	EUR	100	100
Arundel (International) Limited	Gibraltar	EUR	100	100
Bellingham Properties Limited	Gibraltar	EUR	100	100
Carmil Properties Limited	Gibraltar	EUR	100	100
Cepheus Holdings Limited	Gibraltar	EUR	100	100
Interleuvenlaan 15 Real Estate Ltd	Gibraltar	EUR	100	100

**Composition of the Group (Continued)**

Company Name	Domicile	Currency	Percentage of ownership held 2014	Percentage of ownership held 2013
<b>31 December 2014 (USD million)</b>				
Kaylen Properties Limited	Gibraltar	EUR	100	100
Sontex (International) Limited	Gibraltar	EUR	100	100
Weveldlaan 41 Real Estate Ltd	Gibraltar	EUR	100	100
AHL Investment Strategies SPC – Class I1 AHL Global Futures 6 EUR Shares	Guernsey	EUR	100	100
AHL Investment Strategies SPC – Class K1 AHL Global Futures 7 EUR Shares	Guernsey	EUR	100	100
AHL Investment Strategies SPC – Class L1 AHL Global Futures 8 EUR Shares	Guernsey	EUR	100	100
Managed Investments PCC – CS Points Germany II	Guernsey	USD	100	100
Andrea Investments (Jersey) PCC	Jersey	GBP	100	100
Andrea Investments (Jersey) PCC – Cell Series 1000 PC	Jersey	USD	100	100
Boats Investments (Jersey) Ltd Series 467, 511, 512, 528, 532 and 541	Jersey	USD	100	–
AZ Pure China – Fixed Income Strategy	Luxembourg	USD	100	–
AZ Pure China – Equity Strategy	Luxembourg	USD	100	100
Credit Suisse Custom Markets	Luxembourg	USD	100	–
HOLT Europe Equity Fund	Luxembourg	USD	100	100
HOLT Global Equity Fund	Luxembourg	USD	100	100
Nebraska S.A – Compartments 4,5, 7	Luxembourg	USD	100	100
New Jersey S.A.	Luxembourg	EUR	100	100
Dutch Holding Rembrandt B.V.	Netherlands	EUR	100	100
Dutch Property Company Rembrandt BV Entities 1 – 9	Netherlands	EUR	100	100
Westwood S.A	Portugal	USD	100	100

There are no material differences between the date of the end of the reporting period of the financial statements of the CSi group and those of any of its subsidiaries (including any consolidated structured entities). There were no significant changes in ownership during the reporting year ended 31 December 2014 in relation to the CSi group's subsidiaries that resulted in a loss of control nor a change in the consolidation conclusion.

For a certain fund, the CSi group guarantees the minimum initial investment in the fund.

**Restrictions**

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

The Bank must at all times monitor and demonstrate compliance with the relevant regulatory capital requirements set out in the EU Capital Requirements Regulation ('CRR') and additionally as laid down by the PRA. The Bank has put into place processes and controls to monitor and manage its capital adequacy. For more information regarding the Bank's capital adequacy and how the capital resources are managed and monitored please refer to Note 41 – Capital Adequacy.

The CSi group is required to maintain minimum reserves to meet PRA requirements.

Restricted assets also include those assets protected under client segregation rules. Please refer to Note 20 – Brokerage Receivables and Brokerage Payables for further information.

The CSi 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 15 – Trading Financial Assets and Liabilities 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 CSi group has interests in structured entities which are not consolidated. An interest is either a contractual or non-contractual involvement that exposes the CSi 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 CSi 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****Collateralised Debt Obligations**

The CSi group engages in CDO transactions to meet client and investor needs, earn fees and sell financial assets. The CSi 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 CSi 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 CSi group.

### **Financial Intermediation**

The CSi group has significant involvement with structured entities in its role as a financial intermediary on behalf of clients. Financial intermediation consists of securitisations, funds, loans and other vehicles.

### **Securitisations**

Securitisations are primarily CMBS, RMBS and ABS vehicles. The CSi 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 CSi group provided. The CSi group's maximum exposure to loss does not include any effects from financial instruments used to economically hedge the risks of the structured entities.

### **Funds**

Funds include investment structures such as mutual funds, funds of funds, private equity funds and fund-linked products. where the investors' interest is typically in the form of debt rather than equity, thereby making them structured entities. The CSi group may have various relationships with such structured entities in the form of structurer, investment advisor, investment manager, administrator, custodian, underwriter, placement agent, market maker and/or as prime broker. These activities include the use of structured entities in structuring fund-linked products, hedge funds of funds or

private equity investments to provide clients with investment opportunities in alternative investments. In such transactions, a structured entity holds underlying investments and issues securities that provide the investors with a return based on the performance of those investments.

The maximum exposure to loss consists of the fair value of instruments issued by such structures that are held by the CSi group. The investors typically retain the risk of loss on such transactions, but for certain fund types, the CSi group may provide principal protection on the securities to limit the investors' exposure to downside market risk. The CSi group's maximum exposure to loss does not include any effects from financial instruments used to economically hedge the risk of the structured entities.

### **Loans**

Loans are single-financing vehicles where the CSi 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 CSi 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 CSi group's exposure. The CSi group considers the likelihood of incurring a loss equal to the maximum exposure to be remote because of the CSi group's risk mitigation efforts which includes over-collateralisation and effective monitoring to ensure that a sufficient loan-to-value ratio is maintained.

The following table provides the carrying amounts and classifications of the assets and liabilities of interests recorded in the CSi 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

End of 2014	Type of structured entity					Total
	CDO	Securiti- sations	Funds	Financial intermediation		
Loans				Other		
<b>Balance sheet line item (USD million)</b>						
<b>Trading financial assets at fair value through profit or loss</b>						
Debt securities	–	223	3,958	240	–	4,421
Equity securities	–	–	1,701	–	29	1,730
Derivative instruments	110	–	–	–	36	146
Other	–	–	–	6	74	80
<b>Financial assets designated at fair value through profit or loss</b>						
Loans	–	–	–	–	29	29
<b>Total assets</b>	<b>110</b>	<b>223</b>	<b>5,659</b>	<b>246</b>	<b>168</b>	<b>6,406</b>
<b>Trading financial liabilities at fair value through profit or loss</b>						
Derivative instruments	–	(80)	–	–	(111)	(191)
<b>Financial liabilities designated at fair value through profit or loss</b>						
Long term debt	–	–	(6)	–	–	(6)
<b>Total liabilities</b>	<b>–</b>	<b>(80)</b>	<b>(6)</b>	<b>–</b>	<b>(111)</b>	<b>(197)</b>
<b>Maximum exposure to loss</b>	<b>110</b>	<b>223</b>	<b>5,659</b>	<b>246</b>	<b>168</b>	<b>6,406</b>
<b>Unconsolidated structured entity assets</b>	<b>518</b>	<b>2,767</b>	<b>605,402</b>	<b>1,175</b>	<b>919</b>	<b>610,781</b>

The unconsolidated structured entity assets relate to where the CSi 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 CSi group has with the entity and thus are not amounts that are considered for risk management purposes.

## Income and losses from unconsolidated structured entities

31 December 2014	Income/(Losses)						Total
	Derivative Gain/(Loss)	Other Fair Value Gain/(Loss)	Gain/(Loss) on Sale of Assets	Interest Income/ (Expense)	Other Income/ (Other Losses)	Commission and Fees/ (Other Expenses)	
<b>Structured entity type (USD million)</b>							
Securitisations	(9)	(42)	–	4	–	23	(24)
Funds	–	220	(4)	–	5	13	234
Loans	–	(94)	–	18	1	–	(75)
Other	–	2	–	3	–	4	9
<b>Total</b>	<b>(9)</b>	<b>86</b>	<b>(4)</b>	<b>25</b>	<b>6</b>	<b>40</b>	<b>144</b>

The table above shows the income earned from unconsolidated structured entities during the reporting period. Income from an unconsolidated structured entity includes, but is not limited to recurring and non-recurring fees, interest and commission received, gains or losses from the transfer of assets and liabilities and changes in the fair value of instruments, including derivatives.

The CSi 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 CSi group is associated with the structured entity or the CSi group was involved in the design or set up of the structured entity and has a form of involvement with the structured entity.

The table below shows information about the unconsolidated structured entities sponsored by the CSi group where no interest is held by the CSi group.

## Sponsored unconsolidated structured entities

Structured entity type	Income/(Losses)			Total	Carrying Value of Assets transferred
	Derivative Gain/(Loss)	Gain/(Loss) on Sale of Assets	Other Income/(Other Losses)		
<b>31 December 2014 (USD million)</b>					
Securitisations	1,409	32	(3)	1,438	2,264
Funds	(3)	–	–	(3)	–
Loans	(1)	–	–	(1)	–
Other	(62)	1	(6)	(67)	94
<b>Total</b>	<b>1,343</b>	<b>33</b>	<b>(9)</b>	<b>1,367</b>	<b>2,358</b>

The table above shows the income earned from sponsored unconsolidated structured entities during the reporting period and the carrying amount of any assets transferred to those structured entities during the reporting period. Income from an unconsolidated structured entity includes, but is not limited to gains or losses from

the transfer of assets and liabilities and changes in the fair value of derivative instruments.

For some funds, the CSi group occasionally provides support to the entity by funding certain minimal operating expenses.

## 36 Financial Instruments

The disclosure of the CSi group's financial instruments below 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);

- 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 CSi group's financial instruments.

### Financial assets and liabilities by categories

31 December 2014					Carrying value	Total fair value
Group (USD million)	Total carrying value	Held for trading	Designated at fair value	Loans and receivables	Other amortised cost	
<b>Financial assets</b>						
Cash and due from banks	15,409	–	–	–	15,409	15,409
Interest-bearing deposits with banks	165	–	–	–	165	165
Securities purchased under resale agreements and securities borrowing transactions	33,742	–	–	–	33,742	33,742
Trading financial assets at fair value through profit or loss	428,160	428,160	–	–	–	428,160
Financial assets designated at fair value through profit or loss	16,445	–	16,445	–	–	16,445
Other loans and receivables	3,334	–	–	3,334	–	3,321
Other investments	28	–	–	–	28	28
Other assets	49,405	–	–	–	49,405	49,405
<b>Total financial assets</b>	<b>546,688</b>	<b>428,160</b>	<b>16,445</b>	<b>3,334</b>	<b>98,749</b>	<b>546,675</b>
<b>Financial liabilities</b>						
Deposits	4,464	–	–	–	4,464	4,464
Securities sold under repurchase agreements and securities lending transactions	8,650	–	–	–	8,650	8,650
Trading financial liabilities at fair value through profit or loss	405,889	405,889	–	–	–	405,889
Financial liabilities designated at fair value through profit or loss	27,340	–	27,340	–	–	27,340
Short term borrowings	17,267	–	–	–	17,267	17,267
Other liabilities	35,511	–	–	–	35,511	35,511
Long term debt	24,973	–	–	–	24,973	24,932
<b>Total financial liabilities</b>	<b>524,094</b>	<b>405,889</b>	<b>27,340</b>	<b>–</b>	<b>90,865</b>	<b>524,053</b>



## Financial assets and liabilities by categories

31 December 2014					Carrying value	Total fair value
Bank (USD million)	Total carrying value	Held for trading	Designated at fair value	Loans and receivables	Other amortised cost	
<b>Financial assets</b>						
Cash and due from banks	15,145	–	–	–	15,145	15,145
Interest-bearing deposits with banks	165	–	–	–	165	165
Securities purchased under resale agreements and securities borrowing transactions	33,742	–	–	–	33,742	33,742
Trading financial assets at fair value through profit or loss	428,642	428,642	–	–	–	428,642
Financial assets designated at fair value through profit or loss	16,445	–	16,445	–	–	16,445
Other loans and receivables	3,334	–	–	3,334	–	3,321
Other investments	28	–	–	–	28	28
Other assets	49,421	–	–	–	49,421	49,421
<b>Total financial assets</b>	<b>546,922</b>	<b>428,642</b>	<b>16,445</b>	<b>3,334</b>	<b>98,501</b>	<b>546,909</b>
<b>Financial liabilities</b>						
Deposits	4,464	–	–	–	4,464	4,464
Securities sold under repurchase agreements and securities lending transactions	8,650	–	–	–	8,650	8,650
Trading financial liabilities at fair value through profit or loss	406,041	406,041	–	–	–	406,041
Financial liabilities designated at fair value through profit or loss	27,028	–	27,028	–	–	27,028
Short term borrowings	17,267	–	–	–	17,267	17,267
Other liabilities	35,522	–	–	–	35,522	35,522
Long term debt	24,981	–	–	–	24,981	24,940
<b>Total financial liabilities</b>	<b>523,953</b>	<b>406,041</b>	<b>27,028</b>	<b>–</b>	<b>90,884</b>	<b>523,912</b>

## Financial assets and liabilities by categories

31 December 2013					Carrying value	Total fair value <sup>1</sup>
Group (USD million)	Total carrying value	Held for trading	Designated at fair value	Loans and receivables	Other amortised cost	
<b>Financial assets</b>						
Cash and due from banks	27,280	–	–	–	27,280	27,280
Interest-bearing deposits with banks	285	–	–	–	285	285
Securities purchased under resale agreements and securities borrowing transactions	21,106	–	–	–	21,106	21,106
Trading financial assets at fair value through profit or loss	400,915	400,915	–	–	–	400,915
Financial assets designated at fair value through profit or loss	19,808	–	19,808	–	–	19,808
Other loans and receivables	4,470	–	–	4,470	–	4,450
Other investments	34	–	–	–	34	34
Other assets	39,673	–	–	–	39,673	39,538
<b>Total financial assets</b>	<b>513,571</b>	<b>400,915</b>	<b>19,808</b>	<b>4,470</b>	<b>88,378</b>	<b>513,416</b>
<b>Financial liabilities</b>						
Deposits	5,332	–	–	–	5,332	5,332
Securities sold under repurchase agreements and securities lending transactions	4,444	–	–	–	4,444	4,444
Trading financial liabilities at fair value through profit or loss	373,349	373,349	–	–	–	373,349
Financial liabilities designated at fair value through profit or loss	31,073	–	31,073	–	–	31,073
Short term borrowings	15,624	–	–	–	15,624	15,624
Other liabilities	39,426	–	–	–	39,426	39,584
Long term debt	21,443	–	–	–	21,443	21,395
<b>Total financial liabilities</b>	<b>490,691</b>	<b>373,349</b>	<b>31,073</b>	<b>–</b>	<b>86,269</b>	<b>490,801</b>

<sup>1</sup> On 1 January 2014, the CSi group adopted amendments to IAS 32 "Offsetting Financial Assets and Financial Liabilities" (IAS 32). Comparative information has been restated accordingly (see Note 2).

## Financial assets and liabilities by categories

31 December 2013					Carrying value	Total fair value <sup>1</sup>
Bank (USD million)	Total carrying value	Held for trading	Designated at fair value	Loans and receivables	Other amortised cost	
<b>Financial assets</b>						
Cash and due from banks	27,117	–	–	–	27,117	27,117
Interest-bearing deposits with banks	285	–	–	–	285	285
Securities purchased under resale agreements and securities borrowing transactions	21,106	–	–	–	21,106	21,106
Trading financial assets at fair value through profit or loss	400,931	400,931	–	–	–	400,931
Financial assets designated at fair value through profit or loss	19,808	–	19,808	–	–	19,808
Other loans and receivables	4,470	–	–	4,470	–	4,450
Other investments	34	–	–	–	34	34
Other assets	39,661	–	–	–	39,661	39,526
<b>Total financial assets</b>	<b>513,412</b>	<b>400,931</b>	<b>19,808</b>	<b>4,470</b>	<b>88,203</b>	<b>513,257</b>
<b>Financial liabilities</b>						
Deposits	5,332	–	–	–	5,332	5,332
Securities sold under repurchase agreements and securities lending transactions	4,444	–	–	–	4,444	4,444
Trading financial liabilities at fair value through profit or loss	373,660	373,660	–	–	–	373,660
Financial liabilities designated at fair value through profit or loss	30,139	–	30,139	–	–	30,139
Short term borrowings	15,624	–	–	–	15,624	15,624
Other liabilities	39,410	–	–	–	39,410	39,566
Long term debt	21,454	–	–	–	21,454	21,395
<b>Total financial liabilities</b>	<b>490,063</b>	<b>373,660</b>	<b>30,139</b>	<b>–</b>	<b>86,264</b>	<b>490,160</b>

<sup>1</sup> On 1 January 2014, the CSi group adopted amendments to IAS 32 "Offsetting Financial Assets and Financial Liabilities" (IAS 32). Comparative information has been restated accordingly (see Note 2).

### 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 CSi 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. For certain assets and liabilities, carrying value is a good approximation for fair value.

The fair value of the majority of the CSi group's financial instruments is based on quoted prices in active markets or observable inputs. These instruments include government and agency securities, certain CP, most investment grade corporate debt, certain high yield debt securities, exchange-traded and certain OTC derivative instruments and most listed equity securities.

In addition, the CSi 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 varying degrees of judgment, depending on liquidity, concentration, 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 assumptions 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 and Collateralised Debt Obligation ('CDO') securities, private equity investments, certain loans and credit products, including leveraged finance, certain syndicated loans and certain high yield bonds.

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 CSi 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 CSi group's and the counterparty's credit standing is considered when measuring their fair value, based on current Credit Default Swap ('CDS') prices. The adjustments also take into account contractual factors designed to reduce the CSi group's credit exposure to counterparty, such as collateral held and master netting agreements. For hybrid debt instruments with embedded derivative features, the impact of changes in the CSi group's credit standing is considered when measuring their fair value, based on current funded debt spreads.

CSi group adopted the application of a Funding Valuation Allowance ('FVA') on uncollateralised derivatives towards the end

of 2014. The one time transitional charge at adoption was USD 256 million. FVA also applies to collateralised derivatives where the collateral received cannot be used for funding purposes. The banking industry has increasingly moved towards this valuation methodology, which accounts for the funding cost of the uncollateralised derivatives at their present value rather than accruing for these costs over the life of the derivatives.

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 CSi 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 CSi group reflects the net exposure to credit risk for its derivative instruments where the CSi 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.

As a result of adopting IFRS 13 on 1 January 2013, the CSi group changed its valuation methodology and marked positions where the CSi group is a market maker to the mid-price, resulting in a USD 104 million credit to the income statement.

#### 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 CSi 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) inputs 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 (significant unobservable inputs). These inputs reflect the CSi 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 includes the CSi group's own data. The CSi 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 2014 Group	Level 1	Level 2	Level 3	Impact of netting <sup>1</sup>	Total at fair value
<b>Assets (USD million)</b>					
<b>Debt securities</b>	<b>11,886</b>	<b>12,027</b>	<b>1,067</b>	<b>-</b>	<b>24,980</b>
of which UK government	975	-	-	-	975
of which foreign governments	10,893	1,701	178	-	12,772
of which corporates	18	10,235	811	-	11,064
of which residential mortgage backed securities	-	91	-	-	91
of which commercial mortgage backed securities	-	-	78	-	78
<b>Equity securities</b>	<b>7,794</b>	<b>2,383</b>	<b>94</b>	<b>-</b>	<b>10,271</b>
<b>Derivatives</b>	<b>2,146</b>	<b>617,915</b>	<b>6,211</b>	<b>(237,054)</b>	<b>389,218</b>
of which interest rate products	116	475,553	1,662	(231,251)	246,080
of which foreign exchange products	58	84,033	283	-	84,374
of which equity/index-related products	1,947	23,851	1,329	(5,803)	21,324
of which credit derivatives	-	28,235	2,936	-	31,171
of which other derivative products	25	6,243	1	-	6,269
<b>Other</b>	<b>-</b>	<b>2,418</b>	<b>1,273</b>	<b>-</b>	<b>3,691</b>
<b>Trading financial assets at fair value through profit or loss</b>	<b>21,826</b>	<b>634,743</b>	<b>8,645</b>	<b>(237,054)</b>	<b>428,160</b>
<b>Securities purchased under resale agreements and securities borrowing transactions</b>	<b>-</b>	<b>4,449</b>	<b>-</b>	<b>(296)</b>	<b>4,153</b>
<b>Loans</b>	<b>-</b>	<b>6,599</b>	<b>2,754</b>	<b>-</b>	<b>9,353</b>
of which commercial and industrial loans	-	171	1,193	-	1,364
of which loans to financial institutions	-	5,747	788	-	6,535
of which government and public institutions	-	681	562	-	1,243
of which real estate	-	-	211	-	211
<b>Other financial assets designated at fair value through profit or loss</b>	<b>-</b>	<b>2,713</b>	<b>226</b>	<b>-</b>	<b>2,939</b>
of which failed purchases	-	2,686	174	-	2,860
of which other	-	27	52	-	79
<b>Financial assets designated at fair value through profit or loss</b>	<b>-</b>	<b>13,761</b>	<b>2,980</b>	<b>(296)</b>	<b>16,445</b>
<b>Total assets at fair value</b>	<b>21,826</b>	<b>648,504</b>	<b>11,625</b>	<b>(237,350)</b>	<b>444,605</b>

<sup>1</sup> Derivative contracts/ 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 2014 Group	Level 1	Level 2	Level 3	Impact of netting <sup>1</sup>	Total at fair value
<b>Liabilities (USD million)</b>					
<b>Debt securities</b>	<b>3,263</b>	<b>2,258</b>	<b>111</b>	<b>–</b>	<b>5,632</b>
of which UK government	177	2	–	–	179
of which foreign governments	3,065	1,302	111	–	4,478
of which corporates	21	954	–	–	975
<b>Equity securities</b>	<b>3,219</b>	<b>80</b>	<b>–</b>	<b>–</b>	<b>3,299</b>
<b>Other securities</b>	<b>–</b>	<b>9</b>	<b>–</b>	<b>–</b>	<b>9</b>
<b>Derivatives</b>	<b>2,193</b>	<b>620,432</b>	<b>6,225</b>	<b>(231,901)</b>	<b>396,949</b>
of which interest rate products	30	465,133	938	(226,100)	240,001
of which foreign exchange products	63	96,128	544	–	96,735
of which equity/index-related products	2,067	24,695	1,531	(5,801)	22,492
of which credit derivatives	–	27,446	3,208	–	30,654
of which other derivative products	33	7,030	4	–	7,067
<b>Trading financial liabilities at fair value through profit or loss</b>	<b>8,675</b>	<b>622,779</b>	<b>6,336</b>	<b>(231,901)</b>	<b>405,889</b>
<b>Securities sold under resale agreements and securities borrowing transactions</b>	<b>–</b>	<b>5,620</b>	<b>–</b>	<b>(296)</b>	<b>5,324</b>
<b>Short term borrowings</b>	<b>–</b>	<b>1,730</b>	<b>80</b>	<b>–</b>	<b>1,810</b>
<b>Long term debt</b>	<b>–</b>	<b>14,556</b>	<b>4,769</b>	<b>–</b>	<b>19,325</b>
of which structured notes between one and two years	–	984	107	–	1,091
of which other debt instruments between one and two years	–	168	49	–	217
of which treasury debt over two years	–	135	–	–	135
of which structured notes over two years	–	6,006	2,838	–	8,844
of which other debt instruments over two years	–	6,943	1,767	–	8,710
of which non-recourse liabilities	–	320	8	–	328
<b>Other financial liabilities designated at fair value through profit or loss</b>	<b>–</b>	<b>657</b>	<b>224</b>	<b>–</b>	<b>881</b>
of which failed sales	–	651	214	–	865
<b>Financial liabilities designated at fair value through profit or loss</b>	<b>–</b>	<b>22,563</b>	<b>5,073</b>	<b>(296)</b>	<b>27,340</b>
<b>Total liabilities at fair value</b>	<b>8,675</b>	<b>645,342</b>	<b>11,409</b>	<b>(232,197)</b>	<b>433,229</b>
<b>Net assets/liabilities at fair value</b>	<b>13,151</b>	<b>3,162</b>	<b>216</b>	<b>(5,153)</b>	<b>11,376</b>

<sup>1</sup> Derivative contracts/Securities sold 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 2014 Bank	Level 1	Level 2	Level 3	Impact of netting <sup>1</sup>	Total at fair value
<b>Assets (USD million)</b>					
<b>Debt securities</b>	<b>11,912</b>	<b>12,390</b>	<b>1,067</b>	<b>–</b>	<b>25,369</b>
of which UK government	975	–	–	–	975
of which foreign governments	10,893	1,702	178	–	12,773
of which corporates	44	10,597	811	–	11,452
of which residential mortgage backed securities	–	91	–	–	91
of which commercial mortgage backed securities	–	–	78	–	78
<b>Equity securities</b>	<b>7,777</b>	<b>1,884</b>	<b>94</b>	<b>–</b>	<b>9,755</b>
<b>Derivatives</b>	<b>2,146</b>	<b>618,070</b>	<b>6,211</b>	<b>(237,054)</b>	<b>389,373</b>
of which interest rate products	116	475,708	1,662	(231,251)	246,235
of which foreign exchange products	58	84,033	283	–	84,374
of which equity/index-related products	1,947	23,851	1,329	(5,803)	21,324
of which credit derivatives	–	28,235	2,936	–	31,171
of which other derivative products	25	6,243	1	–	6,269
<b>Other</b>	<b>–</b>	<b>2,419</b>	<b>1,726</b>	<b>–</b>	<b>4,145</b>
<b>Trading financial assets at fair value through profit or loss</b>	<b>21,835</b>	<b>634,763</b>	<b>9,098</b>	<b>(237,054)</b>	<b>428,642</b>
<b>Securities purchased under resale agreements and securities borrowing transactions</b>	<b>–</b>	<b>4,449</b>	<b>–</b>	<b>(296)</b>	<b>4,153</b>
<b>Loans</b>	<b>–</b>	<b>6,599</b>	<b>2,754</b>	<b>–</b>	<b>9,353</b>
of which commercial and industrial loans	–	171	1,193	–	1,364
of which loans to financial institutions	–	5,747	788	–	6,535
of which government and public institutions	–	681	562	–	1,243
of which real estate	–	–	211	–	211
<b>Other financial assets designated at fair value through profit or loss</b>	<b>–</b>	<b>2,713</b>	<b>226</b>	<b>–</b>	<b>2,939</b>
of which failed purchases	–	2,686	174	–	2,860
of which other	–	27	52	–	79
<b>Financial assets designated at fair value through profit or loss</b>	<b>–</b>	<b>13,761</b>	<b>2,980</b>	<b>(296)</b>	<b>16,445</b>
<b>Total assets at fair value</b>	<b>21,835</b>	<b>648,524</b>	<b>12,078</b>	<b>(237,350)</b>	<b>445,087</b>

<sup>1</sup> Derivative contracts/ 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 2014 Bank	Level 1	Level 2	Level 3	Impact of netting <sup>1</sup>	Total at fair value
<b>Liabilities (USD million)</b>					
<b>Debt securities</b>	<b>3,262</b>	<b>2,259</b>	<b>111</b>	<b>–</b>	<b>5,632</b>
of which UK government	176	2	–	–	178
of which foreign governments	3,065	1,302	111	–	4,478
of which corporates	21	955	–	–	976
<b>Equity securities</b>	<b>3,219</b>	<b>80</b>	<b>–</b>	<b>–</b>	<b>3,299</b>
<b>Other securities</b>	<b>–</b>	<b>9</b>	<b>–</b>	<b>–</b>	<b>9</b>
<b>Derivatives</b>	<b>2,194</b>	<b>620,584</b>	<b>6,225</b>	<b>(231,902)</b>	<b>397,101</b>
of which interest rate products	30	465,286	938	(226,100)	240,154
of which foreign exchange products	64	96,127	544	–	96,735
of which equity/index-related products	2,067	24,695	1,531	(5,802)	22,491
of which credit derivatives	–	27,446	3,208	–	30,654
of which other derivative products	33	7,030	4	–	7,067
<b>Trading financial liabilities at fair value through profit or loss</b>	<b>8,675</b>	<b>622,932</b>	<b>6,336</b>	<b>(231,902)</b>	<b>406,041</b>
<b>Securities sold under resale agreements and securities borrowing transactions</b>	<b>–</b>	<b>5,620</b>	<b>–</b>	<b>(296)</b>	<b>5,324</b>
<b>Short term borrowings</b>	<b>–</b>	<b>1,730</b>	<b>80</b>	<b>–</b>	<b>1,810</b>
<b>Long term debt</b>	<b>–</b>	<b>14,252</b>	<b>4,761</b>	<b>–</b>	<b>19,013</b>
of which structured notes between one and two years	–	984	107	–	1,091
of which other debt instruments between one and two years	–	183	49	–	232
of which treasury debt over two years	–	135	–	–	135
of which structured notes over two years	–	6,007	2,838	–	8,845
of which other debt instruments over two years	–	6,943	1,767	–	8,710
<b>Other financial liabilities designated at fair value through profit or loss</b>	<b>–</b>	<b>657</b>	<b>224</b>	<b>–</b>	<b>881</b>
of which failed sales	–	651	214	–	865
<b>Financial liabilities designated at fair value through profit or loss</b>	<b>–</b>	<b>22,259</b>	<b>5,065</b>	<b>(296)</b>	<b>27,028</b>
<b>Total liabilities at fair value</b>	<b>8,675</b>	<b>645,191</b>	<b>11,401</b>	<b>(232,198)</b>	<b>433,069</b>
<b>Net assets/liabilities at fair value</b>	<b>13,160</b>	<b>3,333</b>	<b>677</b>	<b>(5,152)</b>	<b>12,018</b>

<sup>1</sup> Derivative contracts/Securities sold 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 2013 Group	Level 1	Level 2	Level 3	Impact of netting <sup>1</sup>	Total at fair value
<b>Assets (USD million)</b>					
<b>Debt securities</b>	<b>13,213</b>	<b>16,271</b>	<b>1,562</b>	<b>–</b>	<b>31,046</b>
of which foreign governments	13,192	3,776	256	–	17,224
of which corporates	21	12,305	1,187	–	13,513
of which residential mortgage backed securities	–	190	–	–	190
of which commercial mortgage backed securities	–	–	119	–	119
<b>Equity securities</b>	<b>9,580</b>	<b>2,349</b>	<b>131</b>	<b>–</b>	<b>12,060</b>
<b>Derivatives</b>	<b>4,174</b>	<b>640,898</b>	<b>5,103</b>	<b>(294,924)</b>	<b>355,251</b>
of which interest rate products	271	507,292	1,559	(287,012)	222,110
of which foreign exchange products	10	65,508	480	–	65,998
of which equity/index-related products	3,601	31,047	1,524	(7,847)	28,325
of which credit derivatives	–	33,073	1,530	–	34,603
of which other derivative products	292	3,978	10	(65)	4,215
<b>Other</b>	<b>–</b>	<b>1,588</b>	<b>970</b>	<b>–</b>	<b>2,558</b>
<b>Trading financial assets at fair value through profit or loss</b>	<b>26,967</b>	<b>661,106</b>	<b>7,766</b>	<b>(294,924)</b>	<b>400,915</b>
<b>Securities purchased under resale agreements and securities borrowing transactions</b>	<b>–</b>	<b>7,445</b>	<b>152</b>	<b>(756)</b>	<b>6,841</b>
<b>Loans</b>	<b>–</b>	<b>6,062</b>	<b>4,431</b>	<b>–</b>	<b>10,493</b>
of which commercial and industrial loans	–	2,595	1,356	–	3,951
of which loans to financial institutions	–	3,118	1,978	–	5,096
of which government and public institutions	–	349	1,097	–	1,446
<b>Other financial assets designated at fair value through profit or loss</b>	<b>–</b>	<b>2,321</b>	<b>153</b>	<b>–</b>	<b>2,474</b>
of which failed purchases	–	2,292	90	–	2,382
of which other	–	29	63	–	92
<b>Financial assets designated at fair value through profit or loss</b>	<b>–</b>	<b>15,828</b>	<b>4,736</b>	<b>(756)</b>	<b>19,808</b>
<b>Total assets at fair value</b>	<b>26,967</b>	<b>676,934</b>	<b>12,502</b>	<b>(295,680)</b>	<b>420,723</b>

<sup>1</sup> Derivative contracts/ 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.

On 1 January 2014, the CSI group adopted amendments to IAS 32 "Offsetting Financial Assets and Financial Liabilities" (IAS 32).

Comparative information has been restated accordingly (see Note 2).

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

31 December 2013 Group	Level 1	Level 2	Level 3	Impact of netting <sup>1</sup>	Total at fair value
<b>Liabilities (USD million)</b>					
<b>Debt securities</b>	<b>1,951</b>	<b>928</b>	<b>-</b>	<b>-</b>	<b>2,879</b>
of which UK government	73	-	-	-	73
of which foreign governments	1,863	632	-	-	2,495
of which corporates	15	296	-	-	311
<b>Equity securities</b>	<b>5,560</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>5,560</b>
<b>Other securities</b>	<b>18</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>18</b>
<b>Derivatives</b>	<b>3,526</b>	<b>647,977</b>	<b>5,887</b>	<b>(292,498)</b>	<b>364,892</b>
of which interest rate products	67	501,316	1,028	(284,585)	217,826
of which foreign exchange products	18	77,019	1,039	-	78,076
of which equity/index-related products	3,127	32,196	2,093	(7,847)	29,569
of which credit derivatives	-	33,108	1,688	-	34,796
of which other derivative products	314	4,338	39	(66)	4,625
<b>Trading financial liabilities at fair value through profit or loss</b>	<b>11,055</b>	<b>648,905</b>	<b>5,887</b>	<b>(292,498)</b>	<b>373,349</b>
<b>Securities sold under resale agreements and securities borrowing transactions</b>	<b>-</b>	<b>8,110</b>	<b>129</b>	<b>(756)</b>	<b>7,483</b>
<b>Short term borrowings</b>	<b>-</b>	<b>1,591</b>	<b>218</b>	<b>-</b>	<b>1,809</b>
<b>Long term debt</b>	<b>-</b>	<b>15,742</b>	<b>4,759</b>	<b>-</b>	<b>20,501</b>
of which structured notes between one and two years	-	971	283	-	1,254
of which other debt instruments between one and two years	-	194	28	-	222
of which treasury debt over two years	-	315	-	-	315
of which structured notes over two years	-	5,002	3,146	-	8,148
of which other debt instruments over two years	-	8,342	1,302	-	9,644
of which non-recourse liabilities	-	918	-	-	918
<b>Other financial liabilities designated at fair value through profit or loss</b>	<b>-</b>	<b>921</b>	<b>359</b>	<b>-</b>	<b>1,280</b>
of which failed sales	-	914	333	-	1,247
<b>Financial liabilities designated at fair value through profit or loss</b>	<b>-</b>	<b>26,364</b>	<b>5,465</b>	<b>(756)</b>	<b>31,073</b>
<b>Total liabilities at fair value</b>	<b>11,055</b>	<b>675,269</b>	<b>11,352</b>	<b>(293,254)</b>	<b>404,422</b>
<b>Net assets/liabilities at fair value</b>	<b>15,912</b>	<b>1,665</b>	<b>1,150</b>	<b>(2,426)</b>	<b>16,301</b>

<sup>1</sup> Derivative contracts/Securities sold 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.

On 1 January 2014, the CSI group adopted amendments to IAS 32 "Offsetting Financial Assets and Financial Liabilities" (IAS 32).

Comparative information has been restated accordingly (see Note 2).

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

31 December 2013 Bank	Level 1	Level 2	Level 3	Impact of netting <sup>1</sup>	Total at fair value
<b>Assets (USD million)</b>					
<b>Debt securities</b>	<b>13,212</b>	<b>16,133</b>	<b>1,562</b>	<b>–</b>	<b>30,907</b>
of which foreign governments	13,191	3,776	256	–	17,223
of which corporates	21	12,167	1,187	–	13,375
of which residential mortgage backed securities	–	190	–	–	190
of which commercial mortgage backed securities	–	–	119	–	119
<b>Equity securities</b>	<b>9,580</b>	<b>1,643</b>	<b>84</b>	<b>–</b>	<b>11,307</b>
<b>Derivatives</b>	<b>4,174</b>	<b>641,290</b>	<b>5,103</b>	<b>(294,924)</b>	<b>355,643</b>
of which interest rate products	271	507,592	1,558	(287,012)	222,409
of which foreign exchange products	10	65,595	480	–	66,085
of which equity/index-related products	3,601	31,046	1,525	(7,847)	28,325
of which credit derivatives	–	33,073	1,530	–	34,603
of which other derivative products	292	3,984	10	(65)	4,221
<b>Other</b>	<b>–</b>	<b>1,587</b>	<b>1,487</b>	<b>–</b>	<b>3,074</b>
<b>Trading financial assets at fair value through profit or loss</b>	<b>26,966</b>	<b>660,653</b>	<b>8,236</b>	<b>(294,924)</b>	<b>400,931</b>
<b>Securities purchased under resale agreements and securities borrowing transactions</b>	<b>–</b>	<b>7,445</b>	<b>152</b>	<b>(756)</b>	<b>6,841</b>
<b>Loans</b>	<b>–</b>	<b>6,062</b>	<b>4,431</b>	<b>–</b>	<b>10,493</b>
of which commercial and industrial loans	–	2,595	1,356	–	3,951
of which loans to financial institutions	–	3,118	1,978	–	5,096
of which government and public institutions	–	349	1,097	–	1,446
<b>Other financial assets designated at fair value through profit or loss</b>	<b>–</b>	<b>2,321</b>	<b>153</b>	<b>–</b>	<b>2,474</b>
of which failed purchases	–	2,292	90	–	2,382
of which other	–	29	63	–	92
<b>Financial assets designated at fair value through profit or loss</b>	<b>–</b>	<b>15,828</b>	<b>4,736</b>	<b>(756)</b>	<b>19,808</b>
<b>Total assets at fair value</b>	<b>26,966</b>	<b>676,481</b>	<b>12,972</b>	<b>(295,680)</b>	<b>420,739</b>

<sup>1</sup> Derivative contracts/ 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.

On 1 January 2014, the CSI group adopted amendments to IAS 32 "Offsetting Financial Assets and Financial Liabilities" (IAS 32).

Comparative information has been restated accordingly (see Note 2).

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

31 December 2013 Bank	Level 1	Level 2	Level 3	Impact of netting <sup>1</sup>	Total at fair value
<b>Liabilities (USD million)</b>					
<b>Debt securities</b>	<b>2,501</b>	<b>998</b>	<b>-</b>	<b>-</b>	<b>3,499</b>
of which UK government	73	-	-	-	73
of which foreign governments	1,863	631	-	-	2,494
of which corporates	565	367	-	-	932
<b>Equity securities</b>	<b>4,940</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>4,940</b>
<b>Other securities</b>	<b>16</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>16</b>
<b>Derivatives</b>	<b>3,526</b>	<b>648,215</b>	<b>5,962</b>	<b>(292,498)</b>	<b>365,205</b>
of which interest rate products	67	501,331	1,028	(284,652)	217,774
of which foreign exchange products	18	77,029	1,039	-	78,086
of which equity/index-related products	3,127	32,269	2,168	(7,846)	29,718
of which credit derivatives	-	33,108	1,688	-	34,796
of which other derivative products	314	4,478	39	-	4,831
<b>Trading financial liabilities at fair value through profit or loss</b>	<b>10,983</b>	<b>649,213</b>	<b>5,962</b>	<b>(292,498)</b>	<b>373,660</b>
<b>Securities sold under resale agreements and securities borrowing transactions</b>	<b>-</b>	<b>8,110</b>	<b>129</b>	<b>(756)</b>	<b>7,483</b>
<b>Short term borrowings</b>	<b>-</b>	<b>1,553</b>	<b>218</b>	<b>-</b>	<b>1,771</b>
<b>Long term debt</b>	<b>-</b>	<b>14,806</b>	<b>4,799</b>	<b>-</b>	<b>19,605</b>
of which structured notes between one and two years	-	971	283	-	1,254
of which other debt instruments between one and two years	-	194	28	-	222
of which treasury debt over two years	-	315	-	-	315
of which structured notes over two years	-	4,984	3,186	-	8,170
of which other debt instruments over two years	-	8,342	1,302	-	9,644
<b>Other financial liabilities designated at fair value through profit or loss</b>	<b>-</b>	<b>921</b>	<b>359</b>	<b>-</b>	<b>1,280</b>
of which failed sales	-	914	333	-	1,247
<b>Financial liabilities designated at fair value through profit or loss</b>	<b>-</b>	<b>25,390</b>	<b>5,505</b>	<b>(756)</b>	<b>30,139</b>
<b>Total liabilities at fair value</b>	<b>10,983</b>	<b>674,603</b>	<b>11,467</b>	<b>(293,254)</b>	<b>403,799</b>
<b>Net assets/liabilities at fair value</b>	<b>15,983</b>	<b>1,878</b>	<b>1,505</b>	<b>(2,426)</b>	<b>16,940</b>

<sup>1</sup> Derivative contracts/Securities sold 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.

On 1 January 2014, the CSI group adopted amendments to IAS 32 "Offsetting Financial Assets and Financial Liabilities" (IAS 32).

Comparative information has been restated accordingly (see Note 2).

## Transfers between Level 1 and Level 2

Group and Bank (USD million)	2014		2013	
	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
<b>Assets</b>				
Trading financial assets at fair value through profit or loss	538	5,466	23	4,962
<b>Total transfers in assets at fair value</b>	<b>538</b>	<b>5,466</b>	<b>23</b>	<b>4,962</b>
<b>Liabilities</b>				
Trading financial liabilities at fair value through profit or loss	43	5,602	1	3,918
<b>Total transfers in liabilities at fair value</b>	<b>43</b>	<b>5,602</b>	<b>1</b>	<b>3,918</b>

The transfers from Level 1 to Level 2 were mainly driven by debt and equity securities where the liquidity had decreased and subsequently lacked pricing transparency. All transfers were reported at the end of the reporting period.

The transfers from Level 2 to Level 1 are mainly driven by the transfer of exchange traded options as they moved closer to maturity and inputs become observable. All transfers were reported at the end of the reporting period.

### 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 2014										
Group	Balance at beginning of period	Transfers in	Transfers out	Purchases	Sales	Issuances	Settlements	On transfers in/out <sup>1</sup>	Trading revenues On all other	Balance at end of period
<b>Assets at fair value (USD million)</b>										
<b>Debt securities</b>	<b>1,562</b>	<b>253</b>	<b>(487)</b>	<b>930</b>	<b>(1,485)</b>	<b>-</b>	<b>-</b>	<b>1</b>	<b>293</b>	<b>1,067</b>
of which foreign governments	256	27	(249)	173	(29)	-	-	4	(4)	178
of which corporates	1,187	226	(238)	757	(1,451)	-	-	(3)	333	811
of which commercial mortgage backed securities	119	-	-	-	(5)	-	-	-	(36)	78
of which collateral debt obligations	-	-	-	-	-	-	-	-	-	-
<b>Equity securities</b>	<b>131</b>	<b>10</b>	<b>(15)</b>	<b>169</b>	<b>(180)</b>	<b>-</b>	<b>-</b>	<b>2</b>	<b>(23)</b>	<b>94</b>
<b>Derivatives</b>	<b>5,103</b>	<b>2,268</b>	<b>(1,719)</b>	<b>-</b>	<b>-</b>	<b>4,233</b>	<b>(3,210)</b>	<b>121</b>	<b>(585)</b>	<b>6,211</b>
of which interest rate products	1,559	80	(535)	-	-	711	(701)	13	535	1,662
of which foreign exchange products	480	25	(40)	-	-	726	(1,035)	4	123	283
of which equity/index-related products	1,524	137	(545)	-	-	2,021	(331)	146	(1,623)	1,329
of which credit derivatives	1,530	2,022	(586)	-	-	612	(1,039)	(44)	441	2,936
of which other derivative products	10	4	(13)	-	-	163	(104)	2	(61)	1
<b>Other</b>	<b>970</b>	<b>585</b>	<b>(642)</b>	<b>1,322</b>	<b>(619)</b>	<b>-</b>	<b>(358)</b>	<b>6</b>	<b>9</b>	<b>1,273</b>
<b>Trading financial assets at fair value through profit or loss</b>	<b>7,766</b>	<b>3,116</b>	<b>(2,863)</b>	<b>2,421</b>	<b>(2,284)</b>	<b>4,233</b>	<b>(3,568)</b>	<b>130</b>	<b>(306)</b>	<b>8,645</b>
<b>Securities purchased under resale agreements and securities borrowing transactions</b>	<b>152</b>	<b>-</b>	<b>(93)</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>(59)</b>	<b>-</b>	<b>-</b>	<b>-</b>
<b>Loans</b>	<b>4,431</b>	<b>8</b>	<b>(12)</b>	<b>969</b>	<b>(1,675)</b>	<b>286</b>	<b>(907)</b>	<b>8</b>	<b>(354)</b>	<b>2,754</b>
of which commercial and industrial loans	1,356	-	(1)	632	(573)	47	(236)	6	(38)	1,193
of which loans to financial institutions	1,978	8	(11)	58	(650)	237	(544)	2	(290)	788
of which government and public institutions	1,097	-	-	35	(451)	-	(118)	-	(1)	562
of which real estate	-	-	-	244	(1)	2	(9)	-	(25)	211
<b>Other financial assets designated at fair value through profit or loss</b>	<b>153</b>	<b>-</b>	<b>(48)</b>	<b>252</b>	<b>(134)</b>	<b>-</b>	<b>-</b>	<b>2</b>	<b>1</b>	<b>226</b>
of which failed purchases	90	-	(48)	164	(47)	-	-	2	13	174
of which other	63	-	-	88	(87)	-	-	-	(12)	52
<b>Financial assets designated at fair value through profit or loss</b>	<b>4,736</b>	<b>8</b>	<b>(153)</b>	<b>1,221</b>	<b>(1,809)</b>	<b>286</b>	<b>(966)</b>	<b>10</b>	<b>(353)</b>	<b>2,980</b>
<b>Total assets at fair value</b>	<b>12,502</b>	<b>3,124</b>	<b>(3,016)</b>	<b>3,642</b>	<b>(4,093)</b>	<b>4,519</b>	<b>(4,534)</b>	<b>140</b>	<b>(659)</b>	<b>11,625</b>

<sup>1</sup> For all transfers to Level 3 or out of Level 3, the CSi 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 2014										
Group	Balance at beginning of period	Transfers in	Transfers out	Purchases	Sales	Issuances	Settlements	On transfers in/out <sup>1</sup>	Trading revenues On all other	Balance at end of period
<b>Liabilities at fair value (USD million)</b>										
<b>Debt securities</b>	–	–	–	128	(14)	–	–	–	(3)	111
of which corporates	–	–	–	17	(14)	–	–	–	(3)	–
of which foreign governments	–	–	–	111	–	–	–	–	–	111
<b>Derivatives</b>	<b>5,887</b>	<b>2,263</b>	<b>(1,546)</b>	–	–	<b>1,396</b>	<b>(3,018)</b>	<b>158</b>	<b>1,085</b>	<b>6,225</b>
of which interest rate products	1,028	49	(107)	–	–	70	(697)	3	592	938
of which foreign exchange products	1,039	4	(3)	–	–	5	(260)	(4)	(237)	544
of which equity/index-related products	2,093	194	(787)	–	–	649	(1,100)	183	299	1,531
of which credit derivatives	1,688	2,016	(638)	–	–	616	(896)	(19)	441	3,208
of which other derivative products	39	–	(11)	–	–	56	(65)	(5)	(10)	4
<b>Trading financial liabilities at fair value through profit or loss</b>	<b>5,887</b>	<b>2,263</b>	<b>(1,546)</b>	<b>128</b>	<b>(14)</b>	<b>1,396</b>	<b>(3,018)</b>	<b>158</b>	<b>1,082</b>	<b>6,336</b>
<b>Securities sold under repurchase agreement and securities lending transactions</b>	<b>129</b>	–	<b>(67)</b>	–	–	–	<b>(62)</b>	–	–	–
<b>Short term borrowings</b>	<b>218</b>	<b>65</b>	<b>(63)</b>	<b>7</b>	–	<b>304</b>	<b>(449)</b>	<b>(4)</b>	<b>2</b>	<b>80</b>
<b>Long term debt</b>	<b>4,759</b>	<b>65</b>	<b>(657)</b>	–	<b>(28)</b>	<b>2,545</b>	<b>(2,064)</b>	<b>(14)</b>	<b>163</b>	<b>4,769</b>
of which structured notes between one and two years	283	61	(142)	–	(28)	205	(303)	(2)	33	107
of which other debt instruments between one and two years	28	–	(15)	–	–	149	(143)	–	30	49
of which structured notes over two years	3,146	–	(314)	–	–	1,193	(1,022)	(9)	(156)	2,838
of which other debt instruments over two years	1,302	4	(186)	–	–	980	(590)	(3)	260	1,767
of which non-recourse liabilities	–	–	–	–	–	18	(6)	–	(4)	8
<b>Other financial liabilities designated at fair value through profit or loss</b>	<b>359</b>	<b>83</b>	<b>(56)</b>	<b>105</b>	<b>(204)</b>	–	–	<b>(1)</b>	<b>(62)</b>	<b>224</b>
of which failed sales	333	77	(50)	23	(109)	–	–	–	(60)	214
<b>Financial liabilities designated at fair value through profit or loss</b>	<b>5,465</b>	<b>213</b>	<b>(843)</b>	<b>112</b>	<b>(232)</b>	<b>2,849</b>	<b>(2,575)</b>	<b>(19)</b>	<b>103</b>	<b>5,073</b>
<b>Total liabilities at fair value</b>	<b>11,352</b>	<b>2,476</b>	<b>(2,389)</b>	<b>240</b>	<b>(246)</b>	<b>4,245</b>	<b>(5,593)</b>	<b>139</b>	<b>1,185</b>	<b>11,409</b>
<b>Net assets/liabilities at fair value</b>	<b>1,150</b>	<b>648</b>	<b>(627)</b>	<b>3,402</b>	<b>(3,847)</b>	<b>274</b>	<b>1,059</b>	<b>1</b>	<b>(1,844)</b>	<b>216</b>

<sup>1</sup> For all transfers to Level 3 or out of Level 3, the CSI 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 2014										
Bank	Balance at beginning of period	Transfers in	Transfers out	Purchases	Sales	Issuances	Settlements	On transfers in/out <sup>1</sup>	Trading revenues On all other	Balance at end of period
<b>Assets at fair value (USD million)</b>										
<b>Debt securities</b>	<b>1,562</b>	<b>253</b>	<b>(487)</b>	<b>930</b>	<b>(1,485)</b>	<b>-</b>	<b>-</b>	<b>1</b>	<b>293</b>	<b>1,067</b>
of which foreign governments	256	27	(249)	173	(29)	-	-	4	(4)	178
of which corporates	1,187	226	(238)	757	(1,451)	-	-	(3)	333	811
of which commercial mortgage backed securities	119	-	-	-	(5)	-	-	-	(36)	78
of which collateral debt obligations	-	-	-	-	-	-	-	-	-	-
<b>Equity securities</b>	<b>84</b>	<b>10</b>	<b>(15)</b>	<b>216</b>	<b>(180)</b>	<b>-</b>	<b>-</b>	<b>2</b>	<b>(23)</b>	<b>94</b>
<b>Derivatives</b>	<b>5,103</b>	<b>2,268</b>	<b>(1,719)</b>	<b>-</b>	<b>-</b>	<b>4,233</b>	<b>(3,210)</b>	<b>121</b>	<b>(585)</b>	<b>6,211</b>
of which interest rate products	1,558	80	(535)	-	-	712	(701)	13	535	1,662
of which foreign exchange products	480	25	(40)	-	-	726	(1,034)	3	123	283
of which equity/index-related products	1,525	137	(545)	-	-	2,020	(331)	146	(1,623)	1,329
of which credit derivatives	1,530	2,022	(586)	-	-	613	(1,040)	(44)	441	2,936
of which other derivative products	10	4	(13)	-	-	162	(104)	3	(61)	1
<b>Other</b>	<b>1,487</b>	<b>585</b>	<b>(642)</b>	<b>1,298</b>	<b>(658)</b>	<b>-</b>	<b>(359)</b>	<b>6</b>	<b>9</b>	<b>1,726</b>
<b>Trading financial assets at fair value through profit or loss</b>	<b>8,236</b>	<b>3,116</b>	<b>(2,863)</b>	<b>2,444</b>	<b>(2,323)</b>	<b>4,233</b>	<b>(3,569)</b>	<b>130</b>	<b>(306)</b>	<b>9,098</b>
<b>Securities purchased under resale agreements and securities borrowing transactions</b>	<b>152</b>	<b>-</b>	<b>(93)</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>(59)</b>	<b>-</b>	<b>-</b>	<b>-</b>
<b>Loans</b>	<b>4,431</b>	<b>8</b>	<b>(12)</b>	<b>967</b>	<b>(1,676)</b>	<b>288</b>	<b>(906)</b>	<b>8</b>	<b>(354)</b>	<b>2,754</b>
of which commercial and industrial loans	1,356	-	(1)	631	(573)	47	(235)	6	(38)	1,193
of which loans to financial institutions	1,978	8	(11)	56	(650)	239	(544)	2	(290)	788
of which government and public institutions	1,097	-	-	35	(451)	-	(118)	-	(1)	562
of which real estate	-	-	-	245	(2)	2	(9)	-	(25)	211
<b>Other financial assets designated at fair value through profit or loss</b>	<b>153</b>	<b>-</b>	<b>(48)</b>	<b>252</b>	<b>(134)</b>	<b>-</b>	<b>-</b>	<b>2</b>	<b>1</b>	<b>226</b>
of which failed purchases	90	-	(48)	164	(47)	-	-	2	13	174
of which other	63	-	-	88	(87)	-	-	-	(12)	52
<b>Financial assets designated at fair value through profit or loss</b>	<b>4,736</b>	<b>8</b>	<b>(153)</b>	<b>1,219</b>	<b>(1,810)</b>	<b>288</b>	<b>(965)</b>	<b>10</b>	<b>(353)</b>	<b>2,980</b>
<b>Assets at fair value excluding noncontrolling interest</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>
<b>Total assets at fair value</b>	<b>12,972</b>	<b>3,124</b>	<b>(3,016)</b>	<b>3,663</b>	<b>(4,133)</b>	<b>4,521</b>	<b>(4,534)</b>	<b>140</b>	<b>(659)</b>	<b>12,078</b>

<sup>1</sup> For all transfers to Level 3 or out of Level 3, the CSI 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 2014										
Bank	Balance at beginning of period	Transfers in	Transfers out	Purchases	Sales	Issuances	Settlements	On transfers in/out <sup>1</sup>	Trading revenues On all other	Balance at end of period
<b>Liabilities at fair value (USD million)</b>										
<b>Debt securities</b>	–	–	–	128	(14)	–	–	–	(3)	111
of which corporates	–	–	–	17	(14)	–	–	–	(3)	–
of which foreign governments	–	–	–	111	–	–	–	–	–	111
<b>Equity securities</b>	–	–	–	–	–	–	–	–	–	–
<b>Derivatives</b>	5,962	2,263	(1,546)	–	–	1,396	(3,093)	158	1,085	6,225
of which interest rate products	1,028	49	(107)	–	–	70	(697)	3	592	938
of which foreign exchange products	1,039	4	(3)	–	–	5	(260)	(4)	(237)	544
of which equity/index-related products	2,168	194	(787)	–	–	649	(1,175)	183	299	1,531
of which credit derivatives	1,688	2,016	(638)	–	–	616	(896)	(19)	441	3,208
of which other derivative products	39	–	(11)	–	–	56	(65)	(5)	(10)	4
<b>Trading financial liabilities at fair value through profit or loss</b>	5,962	2,263	(1,546)	128	(14)	1,396	(3,093)	158	1,082	6,336
<b>Securities sold under repurchase agreement and securities lending transactions</b>	129	–	(67)	–	–	–	(62)	–	–	–
<b>Short term borrowings</b>	218	65	(63)	7	–	304	(449)	(4)	2	80
<b>Long term debt</b>	4,799	65	(673)	–	(28)	2,572	(2,120)	(14)	160	4,761
of which structured notes between one and two years	283	61	(142)	–	(28)	204	(302)	(2)	33	107
of which other debt instruments between one and two years	28	–	(31)	–	–	178	(149)	–	23	49
of which structured notes over two years	3,186	–	(314)	–	–	1,193	(1,062)	(9)	(156)	2,838
of which other debt instruments over two years	1,302	4	(186)	–	–	980	(590)	(3)	260	1,767
of which non-recourse liabilities	–	–	–	–	–	17	(17)	–	–	–
<b>Other financial liabilities designated at fair value through profit or loss</b>	359	83	(56)	105	(204)	–	–	(1)	(62)	224
of which failed sales	333	76	(50)	23	(108)	–	–	–	(60)	214
<b>Financial liabilities designated at fair value through profit or loss</b>	5,505	213	(859)	112	(232)	2,876	(2,631)	(19)	100	5,065
<b>Total liabilities at fair value</b>	11,467	2,476	(2,405)	240	(246)	4,272	(5,724)	139	1,182	11,401
<b>Net assets/liabilities at fair value</b>	(11,467)	(2,476)	2,405	(240)	246	(4,272)	5,724	(139)	(1,182)	(11,401)

<sup>1</sup> For all transfers to Level 3 or out of Level 3, the CSI 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 2013										
Group	Balance at beginning of period	Transfers in	Transfers out	Purchases	Sales	Issuances	Settlements	On transfers in/out <sup>1</sup>	Trading revenues On all other	Balance at end of period
<b>Assets at fair value (USD million)</b>										
<b>Debt securities</b>	<b>2,694</b>	<b>335</b>	<b>(230)</b>	<b>1,382</b>	<b>(2,818)</b>	<b>-</b>	<b>-</b>	<b>16</b>	<b>183</b>	<b>1,562</b>
of which foreign governments	90	268	(76)	6	(37)	-	-	13	(8)	256
of which corporates	2,278	67	(154)	1,376	(2,534)	-	-	3	151	1,187
of which commercial mortgage backed securities	321	-	-	-	(239)	-	-	-	37	119
of which collateral debt obligations	5	-	-	-	(8)	-	-	-	3	-
<b>Equity securities</b>	<b>31</b>	<b>130</b>	<b>(5)</b>	<b>116</b>	<b>(154)</b>	<b>-</b>	<b>-</b>	<b>1</b>	<b>12</b>	<b>131</b>
<b>Derivatives</b>	<b>5,816</b>	<b>1,706</b>	<b>(2,573)</b>	<b>-</b>	<b>-</b>	<b>2,429</b>	<b>(2,481)</b>	<b>197</b>	<b>9</b>	<b>5,103</b>
of which interest rate products	1,921	234	(355)	-	-	317	(659)	3	98	1,559
of which foreign exchange products	624	89	(92)	-	-	29	(134)	2	(38)	480
of which equity/index-related products	1,797	246	(944)	-	-	650	(756)	189	342	1,524
of which credit derivatives	1,471	1,137	(1,134)	-	-	1,206	(774)	2	(378)	1,530
of which other derivative products	3	-	(48)	-	-	227	(158)	1	(15)	10
<b>Other</b>	<b>445</b>	<b>664</b>	<b>(126)</b>	<b>557</b>	<b>(609)</b>	<b>-</b>	<b>(69)</b>	<b>-</b>	<b>108</b>	<b>970</b>
<b>Trading financial assets at fair value through profit or loss</b>	<b>8,986</b>	<b>2,835</b>	<b>(2,934)</b>	<b>2,055</b>	<b>(3,581)</b>	<b>2,429</b>	<b>(2,550)</b>	<b>214</b>	<b>312</b>	<b>7,766</b>
<b>Securities purchased under resale agreements and securities borrowing transactions</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>147</b>	<b>(165)</b>	<b>-</b>	<b>170</b>	<b>152</b>
<b>Loans</b>	<b>3,429</b>	<b>127</b>	<b>(142)</b>	<b>332</b>	<b>(618)</b>	<b>2,168</b>	<b>(1,175)</b>	<b>(1)</b>	<b>311</b>	<b>4,431</b>
of which commercial and industrial loans	2,120	-	(137)	65	(237)	482	(895)	(1)	(41)	1,356
of which loans to financial institutions	921	-	(5)	267	(180)	880	(280)	-	375	1,978
of which government and public institutions	388	127	-	-	(201)	806	-	-	(23)	1,097
<b>Other financial assets designated at fair value through profit or loss</b>	<b>249</b>	<b>-</b>	<b>-</b>	<b>13</b>	<b>(33)</b>	<b>-</b>	<b>(58)</b>	<b>-</b>	<b>(18)</b>	<b>153</b>
of which failed purchases	168	-	-	13	(22)	-	(58)	-	(11)	90
of which other	81	-	-	-	(11)	-	-	-	(7)	63
<b>Financial assets designated at fair value through profit or loss</b>	<b>3,678</b>	<b>127</b>	<b>(142)</b>	<b>345</b>	<b>(651)</b>	<b>2,315</b>	<b>(1,398)</b>	<b>(1)</b>	<b>463</b>	<b>4,736</b>
<b>Total assets at fair value</b>	<b>12,664</b>	<b>2,962</b>	<b>(3,076)</b>	<b>2,400</b>	<b>(4,232)</b>	<b>4,744</b>	<b>(3,948)</b>	<b>213</b>	<b>775</b>	<b>12,502</b>

<sup>1</sup> For all transfers to Level 3 or out of Level 3, the CSI 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 2013										
Group	Balance at beginning of period	Transfers in	Transfers out	Purchases	Sales	Issuances	Settlements	On transfers in/out <sup>1</sup>	Trading revenues On all other	Balance at end of period
<b>Liabilities at fair value (USD million)</b>										
<b>Debt securities</b>	<b>13</b>	<b>–</b>	<b>–</b>	<b>22</b>	<b>(34)</b>	<b>–</b>	<b>–</b>	<b>–</b>	<b>(1)</b>	<b>–</b>
of which corporates	13	–	–	22	(34)	–	–	–	(1)	–
<b>Derivatives</b>	<b>5,916</b>	<b>1,390</b>	<b>(1,440)</b>	<b>–</b>	<b>(1)</b>	<b>1,756</b>	<b>(3,042)</b>	<b>170</b>	<b>1,138</b>	<b>5,887</b>
of which interest rate products	1,360	19	(81)	–	–	115	(522)	4	133	1,028
of which foreign exchange products	1,778	70	(119)	–	–	21	(774)	(17)	80	1,039
of which equity/index-related products	1,253	204	(742)	–	–	870	(524)	163	869	2,093
of which credit derivatives	1,471	1,097	(498)	–	–	746	(1,211)	20	63	1,688
of which other derivative products	54	–	–	–	(1)	4	(11)	–	(7)	39
<b>Trading financial liabilities at fair value through profit or loss</b>	<b>5,929</b>	<b>1,390</b>	<b>(1,440)</b>	<b>22</b>	<b>(35)</b>	<b>1,756</b>	<b>(3,042)</b>	<b>170</b>	<b>1,137</b>	<b>5,887</b>
<b>Securities sold under repurchase agreement and securities lending transactions</b>	<b>–</b>	<b>–</b>	<b>–</b>	<b>–</b>	<b>–</b>	<b>–</b>	<b>–</b>	<b>–</b>	<b>129</b>	<b>129</b>
<b>Short term borrowings</b>	<b>196</b>	<b>41</b>	<b>–</b>	<b>–</b>	<b>(57)</b>	<b>447</b>	<b>(424)</b>	<b>–</b>	<b>15</b>	<b>218</b>
<b>Long term debt</b>	<b>4,868</b>	<b>157</b>	<b>(30)</b>	<b>14</b>	<b>(32)</b>	<b>1,780</b>	<b>(2,580)</b>	<b>–</b>	<b>582</b>	<b>4,759</b>
of which structured notes between one and two years	–	–	(11)	4	–	157	(28)	–	161	283
of which other debt instruments between one and two years	–	–	–	–	–	26	–	–	2	28
of which structured notes over two years	3,477	149	(16)	9	(21)	1,466	(1,904)	–	(14)	3,146
of which other debt instruments over two years	1,380	8	(3)	1	–	131	(648)	–	433	1,302
of which non-recourse liabilities	11	–	–	–	(11)	–	–	–	–	–
<b>Other financial liabilities designated at fair value through profit or loss</b>	<b>220</b>	<b>30</b>	<b>(22)</b>	<b>173</b>	<b>–</b>	<b>–</b>	<b>(4)</b>	<b>–</b>	<b>(38)</b>	<b>359</b>
of which failed sales	220	27	(19)	147	–	–	(4)	–	(38)	333
<b>Financial liabilities designated at fair value through profit or loss</b>	<b>5,284</b>	<b>228</b>	<b>(52)</b>	<b>187</b>	<b>(89)</b>	<b>2,227</b>	<b>(3,008)</b>	<b>–</b>	<b>688</b>	<b>5,465</b>
<b>Total liabilities at fair value</b>	<b>11,213</b>	<b>1,618</b>	<b>(1,492)</b>	<b>209</b>	<b>(124)</b>	<b>3,983</b>	<b>(6,050)</b>	<b>170</b>	<b>1,825</b>	<b>11,352</b>
<b>Net assets/liabilities at fair value</b>	<b>1,451</b>	<b>1,344</b>	<b>(1,584)</b>	<b>2,191</b>	<b>(4,108)</b>	<b>761</b>	<b>2,102</b>	<b>43</b>	<b>(1,050)</b>	<b>1,150</b>

<sup>1</sup> For all transfers to Level 3 or out of Level 3, the CSI 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 2013										
Bank	Balance at beginning of period	Transfers in	Transfers out	Purchases	Sales	Issuances	Settlements	On transfers in/out <sup>1</sup>	Trading revenues On all other	Balance at end of period
<b>Assets at fair value (USD million)</b>										
<b>Debt securities</b>	<b>2,694</b>	<b>335</b>	<b>(230)</b>	<b>1,382</b>	<b>(2,818)</b>	<b>-</b>	<b>-</b>	<b>16</b>	<b>183</b>	<b>1,562</b>
of which foreign governments	90	268	(76)	6	(37)	-	-	13	(8)	256
of which corporates	2,278	67	(154)	1,376	(2,534)	-	-	3	151	1,187
of which commercial mortgage backed securities	321	-	-	-	(239)	-	-	-	37	119
of which collateral debt obligations	5	-	-	-	(8)	-	-	-	3	-
<b>Equity securities</b>	<b>31</b>	<b>130</b>	<b>(5)</b>	<b>69</b>	<b>(154)</b>	<b>-</b>	<b>-</b>	<b>1</b>	<b>12</b>	<b>84</b>
<b>Derivatives</b>	<b>5,817</b>	<b>1,706</b>	<b>(2,573)</b>	<b>-</b>	<b>-</b>	<b>2,395</b>	<b>(2,448)</b>	<b>197</b>	<b>9</b>	<b>5,103</b>
of which interest rate products	1,873	234	(355)	-	-	364	(659)	3	98	1,558
of which foreign exchange products	623	89	(92)	-	-	30	(134)	2	(38)	480
of which equity/index-related products	1,845	246	(944)	-	-	571	(724)	189	342	1,525
of which credit derivatives	1,471	1,137	(1,134)	-	-	1,205	(773)	2	(378)	1,530
of which other derivative products	5	-	(48)	-	-	225	(158)	1	(15)	10
<b>Other</b>	<b>1,068</b>	<b>664</b>	<b>(126)</b>	<b>556</b>	<b>(714)</b>	<b>-</b>	<b>(69)</b>	<b>-</b>	<b>108</b>	<b>1,487</b>
<b>Trading financial assets at fair value through profit or loss</b>	<b>9,610</b>	<b>2,835</b>	<b>(2,934)</b>	<b>2,007</b>	<b>(3,686)</b>	<b>2,395</b>	<b>(2,517)</b>	<b>214</b>	<b>312</b>	<b>8,236</b>
<b>Securities purchased under resale agreements and securities borrowing transactions</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>147</b>	<b>(165)</b>	<b>-</b>	<b>170</b>	<b>152</b>
<b>Loans</b>	<b>3,429</b>	<b>127</b>	<b>(142)</b>	<b>332</b>	<b>(618)</b>	<b>2,168</b>	<b>(1,175)</b>	<b>(1)</b>	<b>311</b>	<b>4,431</b>
of which commercial and industrial loans	2,120	-	(137)	65	(237)	482	(895)	(1)	(41)	1,356
of which loans to financial institutions	921	-	(5)	267	(180)	880	(280)	-	375	1,978
of which government and public institutions	388	127	-	-	(201)	806	-	-	(23)	1,097
<b>Other financial assets designated at fair value through profit or loss</b>	<b>249</b>	<b>-</b>	<b>-</b>	<b>13</b>	<b>(33)</b>	<b>-</b>	<b>(58)</b>	<b>-</b>	<b>(18)</b>	<b>153</b>
of which failed purchases	168	-	-	13	(22)	-	(58)	-	(11)	90
of which other	81	-	-	-	(11)	-	-	-	(7)	63
<b>Financial assets designated at fair value through profit or loss</b>	<b>3,678</b>	<b>127</b>	<b>(142)</b>	<b>345</b>	<b>(651)</b>	<b>2,315</b>	<b>(1,398)</b>	<b>(1)</b>	<b>463</b>	<b>4,736</b>
<b>Assets at fair value excluding noncontrolling interest</b>	<b>13,288</b>	<b>2,962</b>	<b>(3,076)</b>	<b>2,401</b>	<b>(4,289)</b>	<b>4,661</b>	<b>(4,480)</b>	<b>213</b>	<b>775</b>	<b>12,455</b>
<b>Total assets at fair value</b>	<b>13,288</b>	<b>2,962</b>	<b>(3,076)</b>	<b>2,352</b>	<b>(4,337)</b>	<b>4,710</b>	<b>(3,915)</b>	<b>213</b>	<b>775</b>	<b>12,972</b>

<sup>1</sup> For all transfers to Level 3 or out of Level 3, the CSI 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 2013										
Bank	Balance at beginning of period	Transfers in	Transfers out	Purchases	Sales	Issuances	Settlements	On transfers in/out <sup>1</sup>	Trading revenues On all other	Balance at end of period
<b>Liabilities at fair value (USD million)</b>										
<b>Debt securities</b>	<b>13</b>	-	-	-	<b>(12)</b>	-	-	-	<b>(1)</b>	-
of which corporates	13	-	-	-	(12)	-	-	-	(1)	-
<b>Equity securities</b>	-	-	-	-	-	-	-	-	-	-
<b>Derivatives</b>	<b>5,915</b>	<b>1,402</b>	<b>(1,448)</b>	-	-	<b>1,827</b>	<b>(3,042)</b>	<b>170</b>	<b>1,138</b>	<b>5,962</b>
of which interest rate products	1,359	19	(81)	-	-	116	(522)	4	133	1,028
of which foreign exchange products	1,780	70	(119)	-	-	19	(774)	(17)	80	1,039
of which equity/index-related products	1,002	217	(500)	-	-	941	(524)	163	869	2,168
of which credit derivatives	1,721	1,096	(748)	-	-	747	(1,211)	20	63	1,688
of which other derivative products	53	-	-	-	-	4	(11)	-	(7)	39
<b>Trading financial liabilities at fair value through profit or loss</b>	<b>5,928</b>	<b>1,402</b>	<b>(1,448)</b>	-	<b>(12)</b>	<b>1,827</b>	<b>(3,042)</b>	<b>170</b>	<b>1,137</b>	<b>5,962</b>
<b>Securities sold under repurchase agreement and securities lending transactions</b>	-	-	-	-	-	-	-	-	<b>129</b>	<b>129</b>
<b>Short term borrowings</b>	<b>196</b>	<b>41</b>	-	-	<b>(57)</b>	<b>447</b>	<b>(424)</b>	-	<b>15</b>	<b>218</b>
<b>Long term debt</b>	<b>4,858</b>	<b>157</b>	<b>(30)</b>	<b>10</b>	<b>(21)</b>	<b>1,825</b>	<b>(2,582)</b>	-	<b>582</b>	<b>4,799</b>
of which structured notes between one and two years	-	-	(11)	-	-	161	(28)	-	161	283
of which other debt instruments between one and two years	-	-	-	-	-	26	-	-	2	28
of which structured notes over two years	3,477	149	(16)	9	(21)	1,506	(1,904)	-	(14)	3,186
of which other debt instruments over two years	1,381	8	(3)	1	-	132	(650)	-	433	1,302
of which non-recourse liabilities	-	-	-	-	-	-	-	-	-	-
<b>Other financial liabilities designated at fair value through profit or loss</b>	<b>220</b>	<b>30</b>	<b>(22)</b>	<b>145</b>	-	<b>28</b>	<b>(4)</b>	-	<b>(38)</b>	<b>359</b>
of which failed sales	220	30	(22)	119	-	28	(4)	-	(38)	333
<b>Financial liabilities designated at fair value through profit or loss</b>	<b>5,274</b>	<b>228</b>	<b>(52)</b>	<b>155</b>	<b>(78)</b>	<b>2,300</b>	<b>(3,010)</b>	-	<b>688</b>	<b>5,505</b>
<b>Total liabilities at fair value</b>	<b>11,202</b>	<b>1,630</b>	<b>(1,500)</b>	<b>155</b>	<b>(90)</b>	<b>4,127</b>	<b>(6,052)</b>	<b>170</b>	<b>1,825</b>	<b>11,467</b>
<b>Net assets/liabilities at fair value</b>	<b>2,086</b>	<b>1,332</b>	<b>(1,576)</b>	<b>2,197</b>	<b>(4,247)</b>	<b>583</b>	<b>2,137</b>	<b>43</b>	<b>(1,050)</b>	<b>1,505</b>

<sup>1</sup> For all transfers to Level 3 or out of Level 3, the CSI 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)

Group and Bank	2014	2013
<b>Trading revenues (USD million)</b>		
Net realised/unrealised (losses)/gains included in net revenues	(1,843) <sup>1</sup>	(1,007)
Whereof:		
Changes in unrealised (losses)/gains relating to assets and liabilities still held as of the reporting date		
Trading financial assets at fair value through profit or loss	(214)	473
Financial assets designated at fair value through profit or loss	(11)	297
Trading financial liabilities at fair value through profit or loss	(1,358)	(1,055)
Financial liabilities at fair value through profit or loss	(254)	(491)
<b>Total changes in unrealised gains/(losses) relating to assets and liabilities still held as of the reporting date</b>	<b>(1,837)</b>	<b>(776)</b>

<sup>1</sup> Bank USD 1,840 million.

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

The CSi 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 table above 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 at fair value through profit or loss

Trading financial assets transferred into and out of Level 3 as at 31 December 2014 amounted to USD 3,116 million and USD (2,863) million, respectively for both CSi group and bank. USD 2,607 million of transfers into Level 3 were related to credit derivatives and loans. Transfers out of Level 3 largely comprised of credit, equity and interest rate derivatives and loans. Transfers in and out of level 3 is due to reduced or improved observability of pricing data.

Trading financial assets transferred into and out of Level 3 in 2013 amounted to USD 2,835 million and USD (2,934) million, respectively for both CSi group and bank. Approximately USD 1,801 million of transfers into Level 3 were related to credit derivatives and loans. Transfers out of Level 3 largely comprised credit and equity derivatives.

#### Financial assets designated at fair value through profit or loss

Financial assets designated at fair value through profit or loss transferred into and out of Level 3 in 2014 amounted to USD 8 million and USD (153) million, respectively for both CSi group and bank. Transfers into Level 3 were loan related. Transfers out of Level 3 were in relation to both failed purchases and securities purchased under resale agreements and securities borrowing transactions.

Financial assets designated at fair value through profit or loss transferred into and out of Level 3 in 2013 amounted to USD 127 million and USD (142) million, respectively. Both these amounts of transfers were related to loans.

#### Trading financial liabilities at fair value through profit or loss

Trading financial liabilities transferred into and out of Level 3 as at 31 December 2014 amounted to USD 2,263 million and USD (1,546) million, respectively. USD 2,016 million of transfers into Level 3 were related to credit derivatives. Transfers out of Level 3 largely comprised of equity/index related derivatives and credit derivatives.

Trading financial liabilities transferred into and out of Level 3 in 2013 amounted to USD 1,390 million and USD (1,440) million, respectively. USD 1,097 million of transfers into level 3 were related to credit derivatives. Transfers out of Level 3 largely comprised of equity/index related derivatives and credit derivatives.

#### Financial liabilities designated at fair value through profit or loss

For CSi group, financial liabilities designated at fair value through profit or loss transferred into and out of Level 3 as at 31 December 2014 amounted to USD 213 million and USD (843) million, respectively. For bank, financial liabilities designated at fair value through profit or loss transferred into and out of Level 3 as at 31 December 2014 amounted to USD 213 million and USD (859) million, respectively. Transfers into Level 3 were in relation to both structured notes and failed sales. Transfers out of Level 3 were largely related to structured notes.

Financial liabilities designated at fair value through profit or loss transferred into and out of Level 3 as at 31 December 2013 amounted to USD 228 million and USD (52) million, respectively. These were largely related to structured notes.

#### Qualitative disclosures of valuation techniques

The CSi 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 CSi 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 CSi 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 Front Office 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 Front Office, Product Control, Risk Management, and Group Finance 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 comprised of CSG's Executive Board and CSi Board members and the heads of the business and control functions, meets to review and ratify valuation review conclusions, and to resolve significant valuation issues for the CSi group. VARMC includes a formal CSi voting sub-committee comprising the CSi CEO, CFO and CRO, who ratify decisions relevant to the entity. Oversight of the valuation control framework is through specific and regular reporting on valuation directly to the CSG's Executive Board and CSi Board through the VARMC.

One of the key components of the governance process is the segregation of duties between the Front Office and Product Control. The Front Office 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 Front Office 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 CSI 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, Front Office professional judgment 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".

#### Central bank funds sold, securities purchased under resale agreements and securities borrowing 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 input for those classified as Level 3 is funding spread.

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 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 modeling techniques, which may involve judgment. Those securities where the significant 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 modeling techniques utilising observable inputs, such as current interest rate curves and observable CDS spreads. Significant unobservable inputs may include price, buyback probability, correlation, volatility and credit spread. 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). Generally, the interrelationship between volatility, skew, gap risk and correlation is positively correlated.

#### CMBS securities

Fair values of CMBS 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 CMBS 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. 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.

### Equity securities

The majority of the CSI 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 fund-linked products, convertible bonds or equity securities with restrictions that are not traded in active markets. Significant unobservable inputs may include earnings before interest, taxes, depreciation and amortisation, ('EBITDA') multiple, discount rate and capitalisation rate.

### 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 modeling 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.

Our valuation of derivatives includes an adjustment for the cost of funding uncollateralised OTC derivatives.

### 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 skew, prepayment rate, credit spread, basis spread, recovery rate 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 modeling 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, correlation, volatility skew, and credit spread.

### 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 correlation, volatility, skew and buyback probability. Generally, volatility, forward skew, correlation and gap risk are positively correlated.

### Credit derivatives

Credit derivatives include index and single name CDSs 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, funding spread, discount rate and prepayment rate. These inputs are generally implied from available market observable data. Fair values determined by price may include discounted cash flow models using the inputs default rate, loss severity and discount rate.

### Other Trading Assets

Other trading assets primarily include loans and VAT receivables which are valued using market comparable price and discounted

cash flow. The significant unobservable inputs of the fair value loans and VAT receivables is credit spread and market comparable price.

### Loans

The CSi group's loan portfolio which is measured at fair value primarily consists of commercial and industrial loans, loans to government and public institutions, and loans to financial institutions. These categories, include commercial loans, real estate loans, corporate loans, leverage finance loans and emerging market loans. Fair value is based on recent transactions and quoted prices, where available. Where recent transactions and quoted prices are not available, fair value may be determined by relative value benchmarking (which includes pricing based upon another position in the same capital structure, other comparable loan issues, generic industry credit spreads, implied credit spreads derived from CDS for the specific borrower, and enterprise valuations) or calculated based on the exit price of the collateral, based on current market conditions.

Both the funded and unfunded portion of revolving credit lines on the corporate lending portfolio are valued using a CDS pricing model, which requires estimates of significant inputs including credit spreads, recovery rates, credit conversion factors, and weighted average life of the loan. Significant unobservable inputs may include credit spread and price.

### Short-term borrowings and long-term debt

The CSi group's short-term borrowings and long-term debt include structured notes (hybrid financial instruments that are both bifurcated and non-bifurcated), funded derivatives and vanilla debt. The fair value of structured notes is based on quoted prices, where available. When quoted prices are not available, fair value is determined by using a discounted cash flow model incorporating the CSi group's credit spreads, the value of derivatives embedded in the debt and the residual term of the issuance based on call options. Derivatives structured into the issued debt are valued consistently with the CSi group's stand-alone derivative contracts held for trading purposes or used in hedge accounting relationships as discussed above. The fair value of structured debt is heavily influenced by the combined call options and performance of the underlying derivative returns. Significant unobservable inputs for long-term debt include buyback probability, gap risk, correlation, volatility, skew, credit spread and price. Generally, volatility, credit curve, forward skew, correlation and gap risk are positively correlated.

### Other financial liabilities designated at fair value through profit or loss

#### Failed sales

These liabilities represent securitisations that do not meet the criteria for sale treatment under IFRS. Failed sales are valued in a manner consistent with the related underlying financial instruments.

#### 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 "Financial assets and liabilities by categories". 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 with a significant unobservable input of buy-back probability, correlation, price, volatility, volatility skew, discount rate, market implied life expectancy and contingent probability 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 funding spread, capitalisation rate, prepayment rate, recovery rate, basis spread and credit spread, in general, an increase in the significant unobservable input would decrease the fair value.

For Level 3 liabilities, in general, an increase in the related significant unobservable inputs would have the inverse impact on fair value. An increase in the significant unobservable input gap risk would increase the fair value. An increase in the significant unobservable inputs mean reversion and skew would decrease the fair value.

#### Interrelationships between significant unobservable inputs

Except as noted above, there are no fixed material interrelationships between the significant unobservable inputs for the financial instruments. As the significant unobservable inputs may move independently, generally an increase or decrease in one significant unobservable input may have no impact on the other significant unobservable inputs.

### Quantitative information about level 3 assets and liabilities at fair value

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.

As at 31 December 2014 Group (USD million except as indicated)	Fair Value	Valuation technique	Unobservable input	Minimum value	Maximum value	Weighted average
<b>Assets at fair value</b>						
<b>Debt securities</b>	<b>1,067</b>					
of which corporates	811					
of which	295	Option model	Correlation in %	(88)	97	17
			Volatility in %	4	276	30
			Buyback probability in %	50	100	68
of which	166	Discounted cash flow	Credit spread in bp	100	1,218	819
of which	309	Market comparable	Price in %	0	124	113
of which CMBS	79	Discounted cash flow	Capitalisation rate in %	7	10	8
<b>Derivatives</b>	<b>6,211</b>					
of which interest rate products	1,661					
of which	1,536	Option model	Basis spread in bp	(10)	85	30
			Correlation in %	(33)	100	69
			Prepayment rate in %	0	33	24
			Credit spread in bp	229	1,218	1,046
			Volatility skew in %	(9)	31	(1)
of which	125	Discounted cash flow	Recovery rate in %	41	41	41
of which foreign exchange products	258					
of which	206	Option model	Correlation in %	(13)	93	42
			Prepayment rate in %	22	33	28
			Volatility in %	(9)	31	5
of which	52	Discounted cash flow	Credit spread in bp	188	880	392
of which equity/index-related products	1,298					
of which	1,298	Option model	Correlation in %	(88)	97	10
			Volatility in %	4	276	30
			Buyback probability in %	50	100	68
of which credit derivatives	2,653					
of which	2,653	Discounted cash flow	Correlation in %	24	97	72
			Credit spread in bp	1	6,087	586
			Recovery rate in %	0	58	22
			Discount rate in %	1	38	18
			Default rate in %	1	43	7
			Funding spread in bps	51	106	80
			Loss severity in %	10	100	65
<b>Other</b>	<b>1,273</b>					
of which trading loans	1,135					
of which	513	Discounted cash flow	Credit spread in bp	40	661	228
of which	622	Market comparable	Price in %	3	103	83
<b>Loans</b>	<b>2,754</b>					
of which commercial and industrial loans	1,097					
of which	1,097	Discounted cash flow	Credit spread in bp	78	1,327	349
of which loans to finance institutions	272					
of which	9	Market comparable	Price in %	98	98	98
of which	263	Discounted cash flow	Credit spread in bp	183	523	276
of which government and public institutions	551					
of which	551	Discounted cash flow	Credit spread in bp	298	680	482

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

As at 31 December 2014 Group (USD million except as indicated)	Fair Value	Valuation technique	Unobservable input	Minimum value	Maximum value	Weighted average
<b>Liabilities at fair value (USD million)</b>						
<b>Derivatives</b>	<b>6,225</b>					
of which interest rate products	898					
of which	898	Option model	Basis spread, in bp	(11)	85	44
			Correlation, in %	17	100	77
			Prepayment rate, in %	0	33	21
			Credit spread, in bp	229	1,218	1,213
			Volatility skew in %	(9)	31	(1)
			Mean reversion, in %	5	5	5
of which foreign exchange products	537					
of which	528	Option model	Correlation, in %	(10)	70	50
			Prepayment rate, in %	22	33	28
			Volatility skew, in %	(9)	3	(1)
of which	9	Discounted cash flow	Credit spread, in bp	242	1,286	458
of which equity/index-related products	1,516					
of which	1,516	Option model	Correlation, in %	(88)	97	17
			Volatility, in %	1	276	29
			Buyback probability in %	50	100	68
			Skew in %	44	260	110
of which credit derivatives	2,940					
of which	2,940	Discounted cash flow	Correlation, in %	85	97	95
			Credit spread, in bp	1	6,087	557
			Recovery rate, in %	0	60	28
			Discount rate, in %	2	34	17
			Funding spread in bps	51	82	64
			Default rate, in %	1	43	7
			Loss severity, in %	10	100	65
<b>Long term debt</b>	<b>4,769</b>					
of which structured notes over two years	2,659					
of which	2,118	Option model	Correlation, in %	(88)	99	24
			Volatility, in %	4	276	29
			Gap risk, in %	0	3	0
			Buyback probability, in %	50	100	68
of which	541	Discounted cash flow	Credit spread, in bp	228	1,044	289
of which other debt over two years	1,209					
of which	1,209	Option model	Correlation, in %	(88)	97	17
			Volatility, in %	4	276	31
			Buyback probability, in %	50	100	68
			Gap risk, in %	0	3	0
of which structured notes between one and two years	75					
of which	75	Option model	Correlation, in %	(88)	97	17
			Volatility, in %	4	276	31

As at 31 December 2013 Group (USD million except as indicated)	Fair Value	Valuation technique	Unobservable input	Minimum value	Maximum value	Weighted average
<b>Assets at fair value</b>						
<b>Debt securities</b>	<b>1,562</b>					
of which corporates	1,187					
of which	217	Option model	Correlation in %	(83)	96	14
			Volatility in %	2	122	26
			Buyback probability in %	50	100	62
of which	321	Discounted cash flow	Credit spread in bp	16	500	383
of which	565	Market comparable	Price in %	0	136	98
<b>Equity securities</b>	<b>131</b>					
of which	105	Vendor Price	Price in actuals	68	92	79
<b>Derivatives</b>	<b>5,103</b>					
of which interest rate products	1,559					
of which	1,351	Option model	Basis spread in bp	(5)	148	74
			Correlation in %	17	99	77
			Prepayment rate in %	5	31	24
			Volatility in %	2	31	6
			Credit spread in bp	95	430	183
			Gap risk in %	0	0	0
			Volatility skew in %	(9)	2	(1)
of which	208	Discounted cash flow	Recovery rate in %	59	59	59
of which foreign exchange products	480					
of which	275	Option model	Correlation in %	(13)	93	51
			Prepayment rate in %	19	31	25
			Volatility in %	2	31	5
			Mean reversion in %	(3)	(1)	(2)
			Volatility skew in %	(9)	2	(1)
of which	45	Discounted cash flow	Credit spread in bp	150	5,099	459
of which equity/index-related products	1,524					
of which	1,063	Option model	Correlation in %	(83)	96	14
			Volatility in %	2	122	25
			Buyback probability in %	50	100	62
of which credit derivatives	1,530					
of which	1,483	Discounted cash flow	Correlation in %	35	97	77
			Credit spread in bp	1	2,052	91
			Recovery rate in %	0	77	36
			Discount rate in %	4	29	14
			Default rate in %	1	16	6
			Loss severity in %	10	100	58
<b>Other</b>	<b>970</b>					
of which trading loans						
of which	417	Discounted cash flow	Credit spread in bp	393	393	393
of which	553	Market comparable	Price in %	1	51	50
<b>Securities purchased under resale agreements and securities borrowing transactions</b>	<b>152</b>					
of which	152	Option model	Funding spread in bps	90	90	90
<b>Loans</b>	<b>4,431</b>					
of which commercial and industrial loans	1,356					
of which	1,209	Discounted cash flow	Credit spread in bp	95	1,473	431
of which	147	Market comparable	Price in %	0	100	46
of which loans to finance institutions	1,978					
of which	362	Vendor price	Price in actuals	0	4	2
of which	1,189	Discounted cash flow	Credit spread in bp	98	733	377
of which government and public institutions	1,097					
of which	969	Discounted cash flow	Credit spread in bp	296	940	415

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

As at 31 December 2013 Group (USD million except as indicated)	Fair Value	Valuation technique	Unobservable input	Minimum value	Maximum value	Weighted average
<b>Liabilities at fair value (USD million)</b>						
<b>Derivatives</b>	<b>5,887</b>					
of which interest rate products	1,028					
of which	944	Option model	Basis spread, in bp	(5)	148	74
			Correlation, in %	17	99	85
			Prepayment rate, in %	5	31	23
			Credit spread, in bp	430	430	430
			Gap risk, in %	0	0	0
			Mean reversion, in %	5	5	5
of which foreign exchange products	1,039					
of which	946	Option model	Correlation, in %	(10)	70	48
			Prepayment rate, in %	19	31	25
			Volatility skew, in %	(9)	2	(1)
of which	53	Discounted cash flow	Credit spread, in bp	35	12,914	566
of which equity/index-related products	2,093					
of which	1,700	Option model	Correlation, in %	(83)	96	14
			Volatility, in %	2	122	26
			Buyback probability, in %	50	100	62
of which credit derivatives	1,688					
of which	1,615	Discounted cash flow	Correlation, in %	35	97	75
			Credit spread, in bp	1	1,572	123
			Recovery rate, in %	0	77	40
			Discount rate, in %	4	29	14
			Default rate, in %	1	15	6
			Loss severity, in %	6	100	62
<b>Securities sold under repurchase agreements and securities lending transactions</b>	<b>129</b>					
of which	129	Option model	Funding spread, in bps	90	90	90
<b>Long term debt</b>	<b>4,759</b>					
of which structured notes over two years	3,146					
of which	1,033	Option model	Correlation, in %	(83)	99	27
			Volatility, in %	2	122	21
			Gap risk, in %	0	5	0
of which	627	Discounted cash flow	Credit spread, in bp	232	1,201	508
of which other debt over two years	1,302					
of which	688	Option model	Correlation, in %	(83)	96	14
			Volatility, in %	5	122	27
			Buyback probability, in %	50	100	62
			Gap risk, in %	0	5	0
			Skew, in %	79	152	118
of which structured notes between one and two years	283					
of which	283	Option model	Correlation, in %	4	96	51
			Volatility, in %	5	122	27
			Price, in actuals	204	620	386
			Credit spread, in bp	81	1,241	1,236

The 'Quantitative information about Level 3 assets and liabilities at fair value' table applies to both Group and Bank, with the exception of the following adjusted line item in respect of Assets at fair value – Other (trading loan that is eliminated on consolidation from the Group table).

As at 31 December 2014 Bank	Fair Value	Valuation technique	Unobservable input	Minimum value	Maximum value	Weighted average
<b>Assets at fair value (USD million)</b>						
<b>Other</b>	<b>1,726</b>					
of which trading loans	1,390					
of which	821	Discounted cash flow	Credit spread, in bp	228	228	228
			Capitalisation rate, in %	9	9	9
of which	569	Market comparable	Price, in %	3	103	82
<b>As at 31 December 2013 Bank</b>						
<b>Assets at fair value (USD million)</b>						
<b>Other</b>	<b>1,487</b>					
of which trading loans						
of which	887	Discounted cash flow	Credit spread, in bp	393	393	393
			Capitalisation rate, in %	9	9	9
of which	553	Market comparable	Price, in %	1	51	50

### 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.

#### Discount rate

The discount rate is the rate of interest used to calculate the present value of the expected cash flows of a financial instrument. There are multiple factors that will impact the discount rate for any given financial instrument including the coupon on the instrument, the term and the underlying risk of the expected cash flows. Two instruments of similar term and expected cash flows may have significantly different discount rates because the coupons on the instruments are different.

#### Default rate and loss severity

For financial instruments backed by residential real estate or other assets, diversity in the portfolio is reflected in a wide range for loss severity due to varying levels of default. The lower end of the range represents high performing or government guaranteed collateral with a low probability of default or guaranteed timely payment of principal and interest while the higher end of the range relates to collateral with a greater risk of default.

#### Credit spread and recovery rate

For financial instruments where credit spread is the significant unobservable input, the wide range represents positions with varying levels of risk. 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. The spread will be positive for instruments that have a higher risk of default than the index (which is based on a weighted average of its components) and negative for instruments that have a lower risk of default than the index.

Similarly, recovery rates can vary significantly depending upon the specific assets and terms of each transaction. Transactions with higher seniority or more valuable collateral will have higher recovery rates while those transactions which are more subordinated or with less valuable collateral will have lower recovery rates.

#### Correlation

There are many different types of correlation inputs, including credit correlation, cross-asset correlation (such as equity-interest rate correlation), and same-asset correlation (such as interest rate-interest rate correlation). Correlation inputs are generally used to value hybrid and exotic instruments. Generally, same-asset correlation inputs have a narrower range than cross-asset correlation inputs. However, due to the complex and unique nature of these instruments, the ranges for correlation inputs can vary widely across portfolios.

#### Prepayment rate

Prepayment rates may vary between collateral pools, and are driven by a variety of collateral-specific factors, including the type and location of the underlying borrower, the remaining tenor of the obligation and the level and type (e.g., fixed or floating) of interest rate being paid by the borrower.



**Volatility and skew**

Volatility and skew are impacted by the underlying risk, term and strike price of the derivative. In the case of interest rate derivatives, volatility rates may vary significantly between different underlying currencies and expiration dates on the options. Similarly, equity derivatives' volatility may vary greatly depending upon the underlying reference name on the derivative.

**Price**

Bond equivalent price is a primary significant unobservable input for bonds and loans. 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.

**Buyback probability**

Buyback probability is the primary significant unobservable input for fund linked certificates where a historical analysis of buyback rates provides a floor value with the market assumed to price an uncertainty premium into the mark. The default level is 50% with 100% used in cases where the deal is large, concentrated with one counterparty or where other factors indicate enhanced buyback risk.

**Gap Risk**

Gap risk is the primary significant unobservable input for fund linked CPPI and represents the idea that prices will change from one level to another with no trading in between. Pricing sources

are considered as a reference floor only because most of the contributors are no longer active in the market.

**Mean Reversion**

Mean reversion is the primary significant unobservable input for callable CMS spread exotics and represents the idea that prices and returns eventually move back towards the historical average.

**Funding Spread**

Funding spread is the primary significant unobservable input for SPV 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.

**Capitalisation Rate**

Capitalisation rate is the primary significant unobservable input for CMBS loans and is used to estimate the potential return on investment. This is done by dividing the yearly income by the total value of the property

**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:

Group	As at 31 December 2014		As at 31 December 2013	
	Favourable changes	Unfavourable changes	Favourable changes	Unfavourable changes
<b>Impact on net income/(loss) (USD million)</b>				
Derivative assets and liabilities	460	(436)	295	(336)
Assets-backed securities, loans and derivatives	68	(65)	61	(56)
Debt and equity securities	92	(47)	112	(63)
Loans	89	(70)	34	(34)
<b>Total</b>	<b>709</b>	<b>(618)</b>	<b>502</b>	<b>(489)</b>

Bank	As at 31 December 2014		As at 31 December 2013	
	Favourable changes	Unfavourable changes	Favourable changes	Unfavourable changes
<b>Impact on net income/(loss) (USD million)</b>				
Derivative assets and liabilities	460	(436)	295	(336)
Assets-backed securities, loans and derivatives	68	(65)	61	(56)
Debt and equity securities	92	(47)	112	(63)
Loans	108	(89)	57	(57)
<b>Total</b>	<b>728</b>	<b>(637)</b>	<b>525</b>	<b>(512)</b>

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.

Derivative assets and liabilities include primarily equity, foreign exchange, credit and interest rate derivatives. The primary parameters subjected to sensitivity analysis included correlations, volatilities and credit spreads. Correlation sensitivities for equity and interest rate positions were subjected to equal movements up and down. The movements varied by product and existing levels of correlation based upon management judgment. Volatility sensitivities are predominantly equity volatilities and are generally subjected to a 5% to 10% movement up and down. Credit spread sensitivities were subjected to generally equal movements up and down based upon management judgment and underlying market conditions.

Asset backed securities, loans and derivatives include CMBS, asset backed security, collateralised debt obligation ('ABS CDO') and balance guaranteed swap positions. CMBS sensitivities are calculated by subjecting the prices of the positions to a 5% movement up and down. ABS CDO positions were subjected to sensitivities to underlying asset prices, as well as recovery rates on the underlying assets. The underlying asset prices were subjected to a range of downward movements with no movement up. Recovery rates are held at what management believes to be conservative levels and were increased by 10% resulting in favourable uncertainty. Balance guaranteed swap positions were subjected to

sensitivities on prepayment speeds which were estimated based on management's assessment of fast/slow notional bands for movements up and down.

Debt and equity securities include equity fund linked products, variable funding notes and corporate and emerging market bonds. The primary parameters subjected to sensitivity analysis for equity fund linked products and variable funding notes include gap risk. Gap risk sensitivity is estimated by using limited pricing service information and valuing to the conservative side of the range of values. The parameter subjected to sensitivity for emerging market positions is price. Price sensitivity is subjected to a 100 basis point movement up and down. The parameter subjected to sensitivity for corporate debt is credit spreads and are generally subjected to a 15% movement up and down.

Loans include emerging market loans and corporate loans. For emerging market loans the parameter subjected to sensitivity analysis is credit spreads which is subjected to a 15% movement up and down. For corporate loans the parameter subjected to sensitivity analysis is the loan price which is subjected to an equal movement up and down which ranges from 5 to 10 points depending upon the position.

#### Recognition of trade date profit

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 period fair value is expected to become observable.

The following table sets out the aggregate difference yet to be recognised in profit or loss at the beginning and end of year with a reconciliation of the changes of the balance during the year:

Group and Bank	2014	2013
<b>Deferred trade date profit (USD million)</b>		
Balance at the beginning of period	383	394
Increase due to new trades	162	99
Reduction due to passage of time	(100)	(52)
Reduction due to redemption, sales, transfers or improved observability	(73)	(58)
<b>Balance at the end of period</b>	<b>372</b>	<b>383</b>

**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.

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

As at 31 December 2014 Group (USD million)	Level 1	Level 2	Level 3	Total at fair value
<b>Financial assets</b>				
Cash and due from banks	15,125	284	–	15,409
Interest-bearing deposits with banks	–	165	–	165
Securities purchased under resale agreements and securities borrowing transactions	–	33,729	13	33,742
Other loans and receivables	–	3,040	281	3,321
Other investments	–	–	28	28
Other assets	–	49,397	8	49,405
<b>Total fair value of financial assets</b>	<b>15,125</b>	<b>86,615</b>	<b>330</b>	<b>102,070</b>
<b>Financial liabilities</b>				
Deposits	2,525	1,939	–	4,464
Securities sold under repurchase agreements and securities lending transactions	–	8,650	–	8,650
Short term borrowings	–	17,267	–	17,267
Long term debt	–	24,812	120	24,932
Other financial liabilities	–	35,499	12	35,511
<b>Total fair value of financial liabilities</b>	<b>2,525</b>	<b>88,167</b>	<b>132</b>	<b>90,824</b>

As at 31 December 2014 Bank (USD million)	Level 1	Level 2	Level 3	Total at fair value
<b>Financial assets</b>				
Cash and due from banks	15,124	21	–	15,145
Interest-bearing deposits with banks	–	165	–	165
Securities purchased under resale agreements and securities borrowing transactions	–	33,729	13	33,742
Other loans and receivables	–	3,040	281	3,321
Other investments	–	–	28	28
Other financial assets	–	49,413	8	49,421
<b>Total fair value of financial assets</b>	<b>15,124</b>	<b>86,368</b>	<b>330</b>	<b>101,822</b>
<b>Financial liabilities</b>				
Deposits	2,525	1,939	–	4,464
Securities sold under repurchase agreements and securities lending transactions	–	8,650	–	8,650
Short term borrowings	–	17,267	–	17,267
Long term debt	–	24,820	120	24,940
Other financial liabilities	–	35,510	12	35,522
<b>Total fair value of financial liabilities</b>	<b>2,525</b>	<b>88,186</b>	<b>132</b>	<b>90,843</b>

As at 31 December 2013 Group (USD million)	Level 1	Level 2	Level 3	Total at fair value
<b>Financial assets</b>				
Cash and due from banks	27,169	111	–	27,280
Interest-bearing deposits with banks	–	285	–	285
Securities purchased under resale agreements and securities borrowing transactions	–	21,106	–	21,106
Other loans and receivables	–	2,761	1,689	4,450
Other investments	–	–	34	34
Other assets	–	39,407	131	39,538
<b>Total fair value of financial assets</b>	<b>27,169</b>	<b>63,670</b>	<b>1,854</b>	<b>92,693</b>
<b>Financial liabilities</b>				
Deposits	2,489	2,843	–	5,332
Securities sold under repurchase agreements and securities lending transactions	–	4,444	–	4,444
Short term borrowings	–	15,624	–	15,624
Long term debt	–	21,395	–	21,395
Other financial liabilities	–	38,761	823	39,584
<b>Total fair value of financial liabilities</b>	<b>2,489</b>	<b>83,067</b>	<b>823</b>	<b>86,379</b>

As at 31 December 2013 Bank (USD million)	Level 1	Level 2	Level 3	Total at fair value
<b>Financial assets</b>				
Cash and due from banks	27,006	111	–	27,117
Interest-bearing deposits with banks	–	285	–	285
Securities purchased under resale agreements and securities borrowing transactions	–	21,106	–	21,106
Other loans and receivables	–	2,761	1,689	4,450
Other investments	–	–	34	34
Other financial assets	–	39,395	131	39,526
<b>Total fair value of financial assets</b>	<b>27,006</b>	<b>63,658</b>	<b>1,854</b>	<b>92,518</b>
<b>Financial liabilities</b>				
Deposits	2,489	2,843	–	5,332
Securities sold under repurchase agreements and securities lending transactions	–	4,444	–	4,444
Short term borrowings	–	15,624	–	15,624
Long term debt	–	21,395	–	21,395
Other financial liabilities	–	38,743	823	39,566
<b>Total fair value of financial liabilities</b>	<b>2,489</b>	<b>83,049</b>	<b>823</b>	<b>86,361</b>

### 37 Assets Pledged or Assigned

The following table sets forth details of assets pledged or assigned:

Group and Bank	2014	2013
<b>Assets pledged or assigned (USD million)</b>		
Trading financial assets at fair value through profit or loss	16,172	22,951
<b>Collateral received (USD million)</b>		
Fair value of collateral received with the right to resell or repledge	86,955	51,963
Of which sold or repledged	42,017	18,405

Assets pledged or assigned represents the balance sheet 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 derivatives transactions. Refer to Note 15 – Trading Financial Assets and Liabilities at Fair Value Through Profit or Loss for the amount of securities transferred which are encumbered.

As at 31 December 2014 and 2013 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 CSi 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 CSi group, as the secured party, has the right to sell or repledge such collateral, subject to the CSi group returning equivalent securities upon completion of the transaction.

The CSi group enters into agreements with counterparties where collateral or security interests in positions, which the CSi group holds, has been provided. This includes situations where the CSi group has registered charges to certain counterparties over the CSi group's assets in connection with its normal operating activities.

### 38 Derecognition

In the normal course of business, the CSi group enters into transactions where it transfers previously recognised financial assets, such as debt securities, equity securities and other financial instruments. The CSi 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 derecognised with continuing involvement

Where the transfer of a financial asset meets the derecognition criteria under IAS 39, the CSi group may have continuing involvement in a financial asset that has been derecognised. The continuing involvement can take several forms, including but not limited to derivative instruments and debt instruments issued by structured entities to which the asset has been transferred. In addition, the CSi group does not have a continuing involvement in a transferred financial asset if, as part of the transfer, the CSi group neither retains any of the contractual rights or obligations

inherent in the transferred financial asset nor acquires any new contractual rights or obligations relating to the transferred financial asset. The CSi group does not have continuing involvement in a transferred financial asset if it has neither an interest in the future performance of the transferred financial asset nor a responsibility under any circumstances to make payments in respect of the transferred financial asset in the future. The CSi group's exposure resulting from continuing involvement in a transferred asset is generally limited to where the CSi group retains any form of rights or obligations relating to the transferred asset.

The table below provides information for the transfer of financial assets that qualify for sale accounting and subsequent derecognition, in which the CSi group still has continuing involvement as at 31 December 2014, irrespective of the date when the transfer occurred. The maximum exposure to loss from continuing involvement represents the maximum exposure before taking into account the amount of any collateral held against the continuing involvement.

#### Information on transferred assets by type of continuing involvement

2014 Group and Bank (USD million)	Carrying amount of continuing involvement in statement of financial position		Fair value of continuing involvement		Maximum exposure to loss	Loss from transfer	Income / Expense from continuing involvement	
	Trading financial assets at fair value through profit or loss	Trading financial liabilities at fair value through profit or loss	Assets	Liabilities			For the year ended 31 December 2014	Cumulative to 31 December 2014
<b>Type of continuing involvement</b>								
<b>Derivatives</b>								
Swaps	221	(59)	221	(59)	221	4	(44)	94
Notes	144	–	144	–	144	–	4	7
<b>Total</b>	<b>365</b>	<b>(59)</b>	<b>365</b>	<b>(59)</b>	<b>365</b>	<b>4</b>	<b>(40)</b>	<b>101</b>

2013 Group and Bank (USD million)	Carrying amount of continuing involvement in statement of financial position		Fair value of continuing involvement		Maximum exposure to loss	Loss from transfer	Income / Expense from continuing involvement	
	Trading financial assets at fair value through profit or loss	Trading financial liabilities at fair value through profit or loss	Assets	Liabilities			For the year ended 31 December 2013	Cumulative to 31 December 2013
<b>Type of continuing involvement</b>								
<b>Derivatives</b>								
Swaps	168	(10)	168	(10)	168	(12)	(15)	114
Notes	120	–	120	–	120	–	– <sup>1</sup>	17
<b>Total</b>	<b>288</b>	<b>(10)</b>	<b>288</b>	<b>(10)</b>	<b>288</b>	<b>(12)</b>	<b>(15)</b>	<b>131</b>

<sup>1</sup> The expenses from involvement (year-to-date) for Notes is USD 6,951 but shown as Nil as the statement is presented in USD million.

The majority of the CSi group's continuing involvement in derecognised transferred financial assets is in the form of derivative transactions. To reduce its credit risk to derivatives, the CSi group enters into legally enforceable netting agreements with its

derivative counterparties. Collateral on these derivative contracts is usually posted on a net counterparty basis.

The following table shows a maturity analysis of undiscounted cash outflows that the CSi group may be required to pay to repurchase the asset or any other amounts payable (such as dividends

and interest payable) to the counterparty. The below table includes situations where the CSi group has an option to repurchase the asset. In such instances, where the timing of the cash flows is not

specified, the total undiscounted amount has been included in the earliest maturity bucket in the disclosure below. Cash outflows to the counterparty may be triggered by credit events.

#### Maturity analysis of undiscounted cash flows to repurchase transferred assets by type of continuing involvement

2014 Group and Bank (USD million)	Total	On demand	Less than 1 year	1-5 years	more than 5 years
<b>Type of continuing involvement</b>					
<b>Derivatives<sup>1</sup></b>					
Swaps	(309)	(309)	-	-	-

<sup>1</sup> The derivative provides CSi group the right but not the obligation to repurchase the transferred asset at the CSi group's option.

2013 Group and Bank (USD million)	Total	On demand	Less than 1 year	1-5 years	more than 5 years
<b>Type of continuing involvement</b>					
<b>Derivatives<sup>1</sup></b>					
Swaps	(310)	(310)	-	-	-

<sup>1</sup> The derivative provides CSi group the right but not the obligation to repurchase the transferred asset at the CSi group's option.

Instruments that are considered to be continuing involvement are included in Note 15 – Trading Financial Assets and Liabilities at Fair Value Through Profit and Loss and Note 26 – Long Term Debt.

#### 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 CSi 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 CSi groups balance sheet with a corresponding liability established to represent an obligation to the counterparty. As part of the CSi 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

Group and Bank (USD million)	2014		2013	
	Carrying amount of assets	Carrying amount of associated liabilities	Carrying amount of assets	Carrying amount of associated liabilities
<b>Financial assets not derecognised due to the following transactions</b>				
Repurchase & Securities lending agreements	11,120	11,120	15,212	15,212
Total return swaps	905	635	853	833
Other	287	287	482	482

The CSi group also participates in securities lending agreements where the counterparty provides securities as collateral or fees. The carrying amount of the assets not derecognised in such transactions is equal to USD 3,924 million (2013: USD 3,310 million).

Where the CSi 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 CSi.

Assets not derecognised are included in Note 15 – Trading Financial Assets and Liabilities at Fair Value Through Profit or Loss and the corresponding liabilities are included in Note 14 – Securities Borrowed, Lent and Subject to Resale or Repurchase Agreements and Note 16 – Financial Assets and Liabilities Designated at Fair Value Through Profit or Loss.

Of the above, other financial assets not derecognised includes failed sale items including fair value elected items which are shown under Financial assets designated at fair value through profit or loss in the Consolidated Statement of Financial Position.



## 39 Financial Instruments Risk Position

### 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 volatility. The Bank defines its market risk as potential changes in the fair values of financial instruments in response to market movements. A typical transaction may be exposed to a number of different market risks.

The Bank has 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 Bank level down to specific portfolios. The Bank uses market risk measurement and management methods in line with industry standards. These include general tools capable of calculating comparable exposures across the Bank's many activities and focused tools that can specifically model 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 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.

##### 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 as a concept is applicable for all financial risk types with valid regular price histories. Positions are aggregated by risk type rather than by product. 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 in different businesses, such as fixed income and equity, 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 volatility serve as a basis for the statistical VaR model underlying the potential loss estimation. The Bank 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') and other related international standards for market risk management. For some purposes, such as backtesting and benchmarking with competitors, the resulting VaR figures are scaled down or calculated to a one-day holding period level. A one-day holding period and a 99% confidence level mean that, within a one-day horizon, losses (or profits) exceeding the VaR figure should occur, on average under normal market conditions, not more than once every hundred days.

The Bank uses a historical simulation model for the majority of 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 volatility applied to evaluate the portfolio. This methodology also avoids any explicit assumptions on correlation between risk factors. The Bank uses a three-year historical dataset to compute VaR. To ensure that VaR responds appropriately in times of market stress, the Bank uses a scaling technique that automatically increases VaR where the short-term market volatility is higher than the long-term volatility in the three year dataset. This results in a more responsive VaR model, as the impact of changes in overall market volatility is reflected almost immediately in the VaR model.

The Bank has approval from the PRA to use its regulatory VaR model in the calculation of trading book market risk capital requirements.

The VaR model uses assumptions and estimates that the Bank 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.
- Although VaR captures the interrelationships between risk factors, these interrelationships may break down during stressed market conditions.
- 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 confidence threshold.
- VaR is based on either a ten-day (for internal risk management and regulatory purposes) or one-day (for backtesting purposes) 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 exposures.

##### Scenario analysis

Stress testing complements other risk measures by capturing the Bank'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 within 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 Bank level, a set of scenarios are used 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 Bank's risk control framework, stress testing results are used in risk appetite

discussions and strategic business planning, and support the Bank's internal capital adequacy assessment. Stress test scenarios are conducted on a regular basis and the results, trend information and supporting analysis are reported to the Board, senior management and the business lines.

Scenarios can be defined with reference to historic events or based on forward looking, hypothetical events that could impact the Bank's positions, capital, or profitability. The scenarios used within the Bank 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 Bank will be redefined as market conditions and business strategies evolve.

#### Trading portfolios

##### Risk measurement and management

Market risk arises in CSI's trading portfolios primarily through the trading activities of the Investment Banking business lines.

For the purposes of this disclosure, VaR is used to quantify market risk in the trading portfolio, which includes those financial instruments treated as part of the trading book for the Bank's regulatory capital purposes. This classification of assets as trading is done

for the purpose of analysing the Bank's market risk exposure, not for financial statement purposes.

CSI is active in most of the principal trading markets of the world, 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 CSI'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 table below shows the trading related market risk exposure for the Bank, as measured by ten-day 99% VaR. The VaR in the table has been calculated using a three-year historical dataset. 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. There is no material difference in VaR between the Bank and the CSI group.

#### Ten-day, 99% VaR – trading portfolios

End of period	Interest rate and credit spread	Foreign exchange	Commodity	Equity	Diversification benefit <sup>1</sup>	Total
<b>2014 (USD million)</b>						
Average	62	18	6	23	(65)	44
Minimum	31	6	1	12	- <sup>2</sup>	31
Maximum	140	14	14	43	- <sup>2</sup>	69
End of period	40	16	1	23	(32)	48
<b>2013 (USD million)</b>						
Average	73	17	8	21	(62)	57
Minimum	34	6	2	11	- <sup>2</sup>	26
Maximum	124	43	19	86	- <sup>2</sup>	113
End of period	35	15	6	21	(39)	38

<sup>1</sup> 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.

<sup>2</sup> 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 CSI group's ten-day, 99% regulatory VaR as of 31 December 2014 increased by 26% to USD 48 million, compared to 31 December 2013 (USD 38 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 Bank'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

Foreign exchange risk related to expenses and net assets is centrally and systematically managed with a focus on risk reduction and diversification. Risk is monitored and managed at the CSI group level through the levelling of accrued profit or losses which are incurred in a currency other than the CSI group's presentation currency. Any non-presentation currency denominated profit or loss of the CSI group is systematically leveled against the CSI group's presentation currency during or immediately after the month so that foreign exchange risks on accrued profit or loss are fully eliminated at month-end.

The CSi group has approval to manage its own trading profit or loss related foreign exchange risk through a formal trading mandate and has established defined risk limits.

Interest rate risk on banking book positions is shown below 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 be USD 2 million as of 31 December 2014 compared to USD 1 million as of 31 December 2013. 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 2014, the fair value impacts of 200-basis-point move in yield curves (flooring at zero where appropriate) were:

+200bps increase of USD 291 million (2013: increase of USD 205 million)

-200bps decrease of USD 191 million (2013: decrease of USD 155 million)

## ii) Liquidity Risk

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

### CS group-wide management of liquidity risk

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

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

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

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

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

The targeted funding profile is designed to enable CS to continue to pursue activities for an extended period of time without changing business plans during times of stress. The principal measure used to monitor the structural liquidity position of the firm and as the basis for funds transfer pricing policy is the Net Stable Funding Ratio ('NSFR'). This is complemented by CS's internal liquidity barometer, which allows CS to manage the time horizon over which the adjusted market value of unencumbered assets (including cash) exceeds the aggregate value of contractual outflows of unsecured liabilities plus a conservative forecast of anticipated contingent commitments. This framework is supplemented by the modeling of additional stress events and additional liquidity risk measurement tools.

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

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

On regulatory developments, the BCBS issued the Basel III international framework for liquidity risk measurement, standards and monitoring. The framework includes a liquidity coverage ratio ('LCR') and NSFR. The BCBS has stated that it will review the effect of these liquidity standards on financial markets, credit extension and economic growth to address unintended consequences.

The LCR, which will be phased in beginning 1 January 2015 through 1 January 2019, following an observation period which began in 2011, addresses liquidity risk over a 30-day period. The LCR aims to ensure that banks have a stock of unencumbered high-quality liquid-assets available to meet liquidity needs for a 30-day time horizon under a severe stress scenario. The LCR is comprised of two components: the value of the stock of high quality liquid assets in stressed conditions and the total net cash outflows calculated according to specified scenario parameters. The ratio of liquid assets over net cash outflows is subject to an initial minimum requirement of 60%, which will increase by 10% for four years, reaching 100% by 1 January 2019.

The NSFR, which is expected to be introduced on 1 January 2018 following an observation period which began in 2012, establishes criteria for a minimum amount of stable funding based on the liquidity of a bank's assets and activities over a one-year horizon. The NSFR is intended to ensure banks maintain a structurally sound long-term funding profile beyond one year and is a complementary measure to the LCR. The standard is defined as the ratio of available stable funding over the amount of required stable funding and should always be at least 100%.

### Legal entity management of liquidity risk

The liquidity risk of CSi is managed as an integral part of the overall CS global liquidity risk management framework. CSi aims to achieve a prudent approach in the management of liquidity to ensure it can meet its obligations as they fall due. The core

liquidity adequacy analysis used for CSi is aligned to those used globally for the CS barometer.

The legal entity internal liquidity risk management framework also includes local regulatory compliance requirements. Such compliance requirements are measured as part of the Prudential Regulation Authority's Individual Liquidity Guidance ('ILG') which results in CSi 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 is expected to be subject to an initial minimum requirement of 80% on October 1, 2015 with full compliance by January 1, 2018 (one year prior to BCBS guidelines). The NSFR is expected to be introduced on January 1, 2018.

In the context of liquidity management at the legal entity, the Bank's Board is responsible for setting the liquidity risk appetite and liquidity risk tolerance limits. Some of the key characteristics determining CSi's liquidity risk management approach include, but are not limited to:

- Board approved legal entity risk tolerance;
- Compliance with local regulatory requirements;
- Funding of illiquid assets on a term basis;
- Holding a liquid asset portfolio composed of highly liquid unencumbered assets;
- The liquidity value of assets, liabilities and the calibration of contingent liabilities being aligned with the CS global liquidity risk methodologies.

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

The UK IB Board approves the liquidity risk tolerance and assumptions underlying the relevant stress tests on at least an annual basis.

The legal entity risk tolerance and assumptions underlying the relevant stress tests, which form part of CSi's liquidity risk management framework, are reviewed by Treasury and ultimately approved by the Bank's Board of Directors on at least an annual basis or as market conditions dictate.

Treasury is responsible for maintaining a CFP that details specific dealing strategies, actions and responsibilities required 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 communicated strategies.

Incremental to CSi's unsecured funding sources from CS, CSi has the ability to access secured funding markets via repurchase agreements and a structured notes issuance programme. 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:

Group 31 December 2014	On Demand	Due within 3 months	Due between 3 and 12 months	Due between 1 and 5 years	Due after 5 years	Total
<b>Financial liabilities (USD million)</b>						
Deposits	2,526	366	1,572	–	–	<b>4,464</b>
Securities sold under repurchase agreements and securities lending transactions	–	2,512	5,156	34	948	<b>8,650</b>
Trading financial liabilities at fair value through profit or loss	405,889	–	–	–	–	<b>405,889</b>
Financial liabilities designated at fair value through profit or loss	241	4,966	2,006	13,690	6,437	<b>27,340</b>
Short term borrowings	2	17,265	–	–	–	<b>17,267</b>
Long term debt	–	5,341	4,196	12,017	5,057	<b>26,611</b>
Other liabilities	35,456	–	48	7	–	<b>35,511</b>
<b>Total</b>	<b>444,114</b>	<b>30,450</b>	<b>12,978</b>	<b>25,748</b>	<b>12,442</b>	<b>525,732</b>

Group 31 December 2013	On Demand	Due within 3 months	Due between 3 and 12 months	Due between 1 and 5 years	Due after 5 years	Total <sup>1</sup>
<b>Financial liabilities (USD million)</b>						
Deposits	–	775	2,210	929	1,418	<b>5,332</b>
Securities sold under repurchase agreements and securities lending transactions	–	1,009	1,964	–	1,471	<b>4,444</b>
Trading financial liabilities at fair value through profit or loss	373,349	–	–	–	–	<b>373,349</b>
Financial liabilities designated at fair value through profit or loss	–	4,792	6,722	13,903	5,656	<b>31,073</b>
Short term borrowings	–	28	15,592	4	–	<b>15,624</b>
Long term debt	–	4,198	85	13,325	4,754	<b>22,362</b>
Other liabilities	31,359	–	29	8,038	–	<b>39,426</b>
<b>Total</b>	<b>404,708</b>	<b>10,802</b>	<b>26,602</b>	<b>36,199</b>	<b>13,299</b>	<b>491,610</b>

<sup>1</sup> On 1 January 2014, CSI group adopted amendments to IAS 32 "Offsetting Financial Assets and Financial Liabilities" (IAS 32). Comparative information has been restated accordingly (See Note 2).

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 (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 CSI to put or call the positions at short notice.

### iii) Currency Risk

The Bank takes on exposure to the effects of fluctuations in the prevailing foreign currency exchange rates on its financial position and cash flows.

The Bank has approval to manage its own trading P&L related Foreign exchange risk through a formal trading mandate and has defined risk limits using the Value at Risk (VaR) methodology. Its currency exposure within the non-trading portfolios is managed through the CS group's leveling process as set out in the Corporate foreign exchange Policy. Both these methodologies are discussed in more detail in section i) of this note.

### iv) Credit Risk

Credit risk in CSI is managed by the UK Credit Risk Management ('UK CRM') department, which is headed by the UK Chief Credit Officer ('UK CCO'), who in turn reports to the Bank Chief Risk Officer. UK 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. CRM reports to the Chief Risk Officer of CS group. All credit limits in CSI are subject to approval by UK CRM.

### Definition of counterparty 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 bank 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 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 individual counterparty credit risk. 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 CSI group employs a set of credit ratings for the purpose of internally rating counterparties to whom the CSI group are 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 CSI group's internal ratings may differ from counterparty's 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 judgment of credit experts. The PD for each rating is calibrated based on historic default experience, using external data from Standard & Poor's, and backtested to ensure consistency with internal experience.

The CSI 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. CSI 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 the pricing of transactions involving credit risk more

accurately, based on risk/return estimates. CSI has been granted permission by the PRA to use internal credit rating models under the Basel II A-Internal Rating Based ('IRB') approach for the majority of credit exposures in CSI. Exposures which are not covered by AIRB treatment are subject to the standardised approach.

#### Credit Risk Overview

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

#### 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 2014. For financial guarantees granted and other credit-related contingencies the maximum exposure to credit risk is the maximum amount that CSI 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:

2014 (USD million)	Group			Bank		
	Gross	Collateral	Net	Gross	Collateral	Net
<b>Maximum exposure to credit risk</b>						
Cash and due from banks	15,409	-	15,409	15,145	-	15,145
Interest bearing deposits with banks	165	-	165	165	-	165
Securities purchased under resale agreements and Securities borrowing transactions	33,742	33,742	-	33,742	33,742	-
<b>Trading financial assets at fair value through profit or loss</b>						
Debt securities	24,980	-	24,980	25,369	-	25,369
Derivative trading positions	389,218	365,664	23,554	389,373	365,664	23,709
Other	3,691	-	3,691	4,145	-	4,145
<b>Financial assets designated at fair value through profit or loss</b>						
Debt securities	-	-	-	-	-	-
Loans	9,353	2,827	6,526	9,353	2,827	6,526
Reverse repurchase agreements	4,153	4,153	-	4,153	4,153	-
Other	2,939	1,746	1,193	2,939	1,746	1,193
Other loans and receivables	3,334	2,995	339	3,334	2,995	339
Other assets	49,405	-	49,405	49,421	-	49,421
<b>Maximum exposure to credit risk – total assets</b>	<b>536,389</b>	<b>411,127</b>	<b>125,262</b>	<b>537,139</b>	<b>411,127</b>	<b>126,012</b>
<b>Off-balance sheet items</b>						
financial guarantees	1,238	1	1,237	1,238	1	1,237
loan commitments and other credit related commitments	11,134	6,303	4,831	11,134	6,303	4,831
<b>Maximum exposure to credit risk – total off-balance sheet</b>	<b>12,372</b>	<b>6,304</b>	<b>6,068</b>	<b>12,372</b>	<b>6,304</b>	<b>6,068</b>
<b>Maximum exposure to credit risk</b>	<b>548,761</b>	<b>417,431</b>	<b>131,330</b>	<b>549,511</b>	<b>417,431</b>	<b>132,080</b>

2013 (USD million)	Group			Bank		
	Gross	Collateral	Net	Gross	Collateral	Net
<b>Maximum exposure to credit risk</b>						
Cash and due from banks	27,280	–	27,280	27,117	–	27,117
Interest bearing deposits with banks	285	–	285	285	–	285
Securities purchased under resale agreements and Securities borrowing transactions	21,106	21,106	–	21,106	21,106	–
<b>Trading financial assets at fair value through profit or loss</b>						
Debt securities	31,046	–	31,046	30,907	–	30,907
Derivative trading positions	355,251	334,368	20,883	355,643	334,368	21,275
Other	2,558	–	2,558	3,074	–	3,074
<b>Financial assets designated at fair value through profit or loss</b>						
Debt securities	–	–	–	–	–	–
Loans	10,493	4,213	6,280	10,493	4,213	6,280
Reverse repurchase agreements	6,841	6,841	–	6,841	6,841	–
Other	2,474	2,299	175	2,474	2,299	175
Other loans and receivables	4,470	3,457	1,013	4,470	3,457	1,013
Other assets	39,673	–	39,673	39,661	–	39,661
<b>Maximum exposure to credit risk – total assets</b>	<b>501,477</b>	<b>372,284</b>	<b>129,193</b>	<b>502,071</b>	<b>372,284</b>	<b>129,787</b>
<b>Off-balance sheet items</b>						
financial guarantees	1,622	566	1,056	1,622	566	1,056
loan commitments and other credit related commitments	12,499	5,920	6,579	12,499	5,920	6,579
<b>Maximum exposure to credit risk – total off-balance sheet</b>	<b>14,121</b>	<b>6,486</b>	<b>7,635</b>	<b>14,121</b>	<b>6,486</b>	<b>7,635</b>
<b>Maximum exposure to credit risk</b>	<b>515,598</b>	<b>378,770</b>	<b>136,828</b>	<b>516,192</b>	<b>378,770</b>	<b>137,422</b>

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

The CSi group typically enters into master netting arrangements (MNA's) with over the counter ('OTC') derivative counterparties. The MNA's allow the CSi 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 CSi 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 CSi group holds against loans in the form of guarantees, cash and marketable securities. The CSi 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 16

– Financial Assets and Liabilities Designated at Fair Value through Profit and Loss.

Reverse repurchase agreements and securities borrowings are typically fully collateralised instruments and in the event of default, the agreement provides the CSi group the right to liquidate the collateral held. Reverse repos are included either within securities or 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 CSi group monitors the fair value of securities borrowed and loaned on a daily basis with additional collateral obtained as necessary. The fair value of the collateral has been included in the table above. For further information on the collateral and credit enhancements held against reverse repurchase agreements and securities borrowing refer to Note 14 – 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 CSi 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 34 – Guarantees and Commitments.

For further information on collateral held as security that the CSi group is permitted to sell or repledge refer to Note 37 – 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

CSi 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. CSi also actively enters into collateral arrangements for OTC derivatives and other traded products which

allow it 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. Collateral securing loan transactions includes:

- Financial collateral pledged against loans collateralised by securities (mostly cash and marketable securities); and
- Physical collateral (real estate property for mortgages, mainly retail residential, but also multi-family buildings, offices and commercial properties); and
- Other types of lending collateral such as accounts receivable, inventory and plant and equipment.

### Counterparty exposure before collateral by rating

	2014		2013	
	USD million	%	USD million	%
<b>Bank</b>				
AAA	3,405	5	2,725	4
AA+ to AA-	15,757	21	14,605	22
A+ to A-	22,770	31	20,588	30
BBB+ to BBB-	16,208	22	14,566	22
BB+ to BB-	9,262	13	7,860	12
B+ and below	6,108	8	7,054	10
	<b>73,510</b>	<b>100</b>	<b>67,398</b>	<b>100</b>

### Unsecured exposure by rating (including provisions)

	2014		2013	
	USD million	%	USD million	%
<b>Bank</b>				
AAA	3,237	10	3,159	10
AA+ to AA-	10,007	30	9,373	29
A+ to A-	11,241	34	10,939	34
BBB+ to BBB-	4,286	13	3,526	11
BB+ to BB-	966	3	1,142	4
B+ and below	3,216	10	3,813	12
	<b>32,953</b>	<b>100</b>	<b>31,952</b>	<b>100</b>

The above tables include all loans, commitments, derivatives, securities purchased and sold under repurchase and resale agreements, and short term cash trades on a net counterparty exposure basis for the Bank as most of the trading portfolio mainly resides in the Bank.

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

#### Wrong-way exposures

Correlation risk arises when the Bank enters into a financial transaction where market rates are correlated to the financial health of the counterparty. In a wrong-way trading situation, the Bank's exposure to the counterparty increases while the counterparty's financial health and its ability to pay on the transaction diminishes.

Capturing wrong-way risk requires the establishment of basic assumptions regarding correlations within a given trading product. The Bank has multiple processes that allow us to capture and estimate of wrong-way risk.

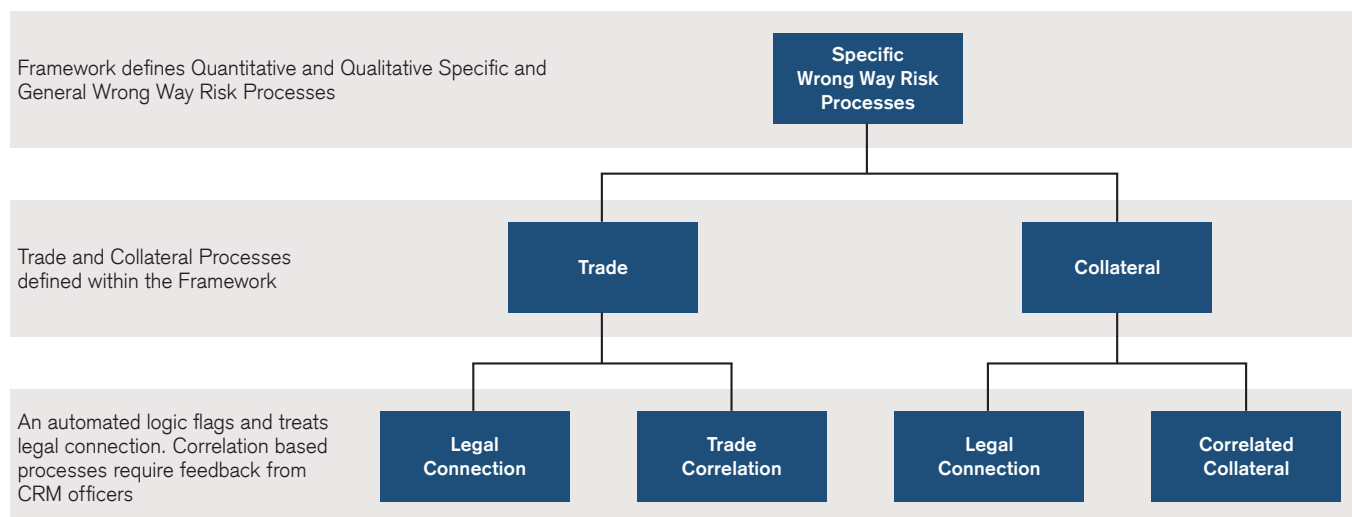
#### Credit approval and reviews

A primary responsibility of Credit Risk Management ('CRM') is the approval of new counterparty trading relationships and the subsequent on-going review of the creditworthiness of the client. Part of the review and approval process involves the consideration of the motivation of the client and 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).

### Exposure adjusted risk calculation

Wrong way risk can arise from different business relationships.

An exposure methodology based on jump to default assumption, ineligibility of collateral or scenario based add-ons is in place to identify and adjust exposures for all specific wrong way risk types as per the distinction in the table below.



With respect to general wrong way risk, a scenario based exposure add-on is applied to those counterparties where the Basel III prescribed stressed calibration of exposure is not deemed sufficient to capture the additional risk fully.

### Wrong-way risk monitoring

Regular reporting of wrong-way risk at both the individual trade and portfolio level allows wrong-way risk to be monitored and corrective action taken by CRM in the case of heightened concern. Transactions containing wrong way risk due to legal connection are automatically flagged and included in the regular reporting. Transactions containing wrong way risk due to correlation are flagged to CRM officers for confirmation and then included into regular reporting. Scenarios giving rise to general wrong way risk for a set of counterparties broken down by industry and region are also reported to CRM officers and discussed on a regular basis at the relevant committees.

### 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 countervalue 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 CSi group manages its risk through confirmation and affirmation of transaction details with counterparties. In order to reduce gross settlement risk, the CSi group leverages Clearing Houses, Central Counterparties and Central Settlement services and will also net gross cashflows with a given counterpart where possible. CSi group proactively seeks to manage the timing of settlement instructions to 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. UK CRM has incorporated country limits into its Credit Risk Appetite Framework in order to mitigate this risk in CSi.

For CSi, country limits are set for both developed and emerging markets, based on a potential future exposure view and on a scenario view respectively. Upon UK CRM recommendation, limits are calibrated and approved by the UKIBRMC on an annual basis or, if warranted by a fundamental change in strategy or market conditions, more frequently. The measurement of exposures against country limits is reported weekly to UK CRM dedicated teams and senior management. Front Office representatives are responsible for ensuring limits are respected and any breach is promptly managed. CRM provide independent oversight to ensure that businesses operate within their limits. During the course of the year, reserves are available to UK CCO and the Bank's 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 UKIBRMC.

### vi) Legal and Regulatory Risk

The CS group faces significant legal risks in its businesses. Legal risks include, among other things, disputes over the terms of trades and other transactions in which the CS group acts as principal; the unenforceability or inadequacy of the documentation

used to give effect to transactions in which the CS group participates; investment suitability concerns; compliance with the laws and regulations (including change in laws or regulations) of the many countries in which the CS group does business; and disputes with its employees. Some of these transactions or disputes result in potential or actual litigation that the CS group must incur legal expenses to defend.

The CS group seeks to minimise legal risk through the adoption of compliance and other policies and procedures, continuing to refine controls over business practices and behaviour, employee training sessions, the use of appropriate legal documentation, and the involvement of the Legal and Compliance department and outside legal counsel. In addition, the CS group is an active participant in ISDA and other professional derivative market forums, with specific focus on improving levels of derivative market and product standardisation, legal definition and protocol.

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 and, in recent years, costs related to our compliance with these requirements and the penalties and fines sought and imposed on the financial services industry by regulatory authorities have all increased significantly and may increase further. These regulations often serve to limit activities, including through 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 CSi group may operate. Such limitations can have a negative effect on the CSi group's business and ability to implement strategic initiatives. To the extent that disinvestment is required from certain businesses, losses could be incurred, as the CSi group may be forced to sell such businesses at a discount, which in certain instances could be substantial, as a result of both the constrained timing of such sales and the possibility that other financial institutions are liquidating similar investments at the same time.

The financial services industry continues to be affected by the significant uncertainty over the scope and content of regulatory reform in 2015 and beyond. Changes in laws, rules or regulations, or in their interpretation or enforcement, or the implementation of new laws, rules or regulations, may adversely affect the results of operations.

#### **vii) Operational Risk**

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

Operational risk is inherent in most aspects of CSi activities and is comprised of a large number of disparate risks. While market and credit risk are often chosen for the prospect of gain, operational risk is normally accepted as a necessary consequence of doing business. In comparison to market or credit risk, the sources of operational risk are difficult to identify comprehensively and the amount of risk is also inherently difficult to measure.

As a global financial services company, the CSi group relies heavily on financial, accounting and other data processing systems, which are varied and complex. The CSi group business

depends on the ability to process a large volume of diverse and complex transactions, including derivatives transactions, which have increased in volume and complexity. The CSi group is exposed to operational risk arising from errors made in the execution, confirmation or settlement of transactions or in transactions not being properly recorded or accounted for. Information security, data confidentiality and integrity are of critical importance to the CSi group businesses. Despite a wide array of security measures to protect the confidentiality, integrity and availability of systems and information, it is not always possible to anticipate the evolving threat landscape and mitigate all risks to systems and information. The CSi group could also be affected by risks to the systems and information of clients, vendors, service providers, counterparties and other third parties.

The effective management of operational risk requires a common bank-wide framework with ownership of these risks residing with the management responsible for the relevant business process. The Operational Risk Framework's primary aim is the early identification, recording, assessment, monitoring, prevention and mitigation of operational risks, as well as timely and meaningful management reporting.

#### **Operational Risk Management**

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

Operational risk governance takes place at various levels within the UK IB. In line with practice for other risk types, there are separate review and escalation processes for CSi. This ensures that a clear focus is paid to potential risk concentrations in CSi when considered on a standalone basis. Although the global and UK IB risk governance processes operate in parallel, there needs to be close coordination and information sharing to ensure that risks and issues receive proper management attention and are addressed appropriately in all cases.

In 2013, the UK IB introduced an Operational Risk Framework providing a systematic approach to risk management. The framework comprises a series of interrelated components that are used to identify, monitor and control operational risks in line with risk appetite. The framework components include:

- Governance and Policy Framework, establishing standards and review mechanisms for all activities;
- Risk appetite tolerance levels set for CSi, which set out senior management's expectations with respect to losses/gains and metrics – breaches of tolerance levels are reported to senior management and may trigger actions;
- Standardised bank-wide operational risk register, which is a catalogue of inherent operational risks arising as a consequence of our activities on a front-to-back basis
- Internal control assessment with guidance to ensure that controls are executed, assessed and evidenced on a consistent and comprehensive basis

- Specific CSi risk and control indicators, which are metrics that are used to monitor operational risk exposures and the effectiveness of controls, respectively – they may be associated with tolerance levels that define acceptable performance and provide early warning signals about potential impending issues;
  - Investigations into internal and external incidents to inform risk measurement and management processes;
  - Risk and control self-assessments ('RCSAs'), which are comprehensive, bottom-up assessments of the key operational risks in each business; RCSAs utilise other components of the operational risk framework, such as risk and control indicators and loss data, and they evaluate the strength of mitigating controls to produce an assessment of the residual risks and remediation requirements in each business. These are explicitly assessed for CSi
  - Identification and management of Top Operational Risks, which are the most significant residual operational risks that require executive level management oversight to avoid occurrence or prevent re-occurrence of such risks; associated risk remediation efforts are identified and tracked.
  - A suite of operational risk reports exists that provide information on a range of Framework components to a variety of audiences including formal reports to senior management
  - The Responses Framework provides a governance structure and process for how Credit Suisse responds to various kinds of operational risk events; and
  - CS has defined a set of ten Business Conduct Behaviors that are designed to reduce operational risk incidents; these behaviours incorporate the lessons learned from incidents at Credit Suisse, peer firms and other industries.
- Damage to the integrity of the financial markets;
  - Ineffective competition in the markets in which Credit Suisse participates; or
  - Non-compliance with the laws or regulations (or the spirit of such laws and regulations) or failure to meet the expectations of our stakeholders including policymakers, regulators, government bodies or society.

A UK Conduct Risk Committee ('UK CRC') has been established which is designed to enable the Bank to review the effectiveness of the Bank's conduct risk framework and challenge business leaders on the suitability and effectiveness of the measures and tools used in their businesses to identify, control and mitigate conduct risk. The UK CRC is tasked with sponsoring and reviewing appropriate policies and procedures and monitoring peer group and regulatory statements and developments in the conduct risk space. The UK CRC will consider reports covering conduct risk identification, conduct risk mitigation and conduct risk management information. 2015 priorities include embedding business conduct behaviours throughout the employee lifecycle (recruitment, induction, training, promotions, performance assessment and compensation) and increased focus on Conduct Risk in 2015 RCSAs and extending best practices globally.

#### ix) Reputational Risk

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

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

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

Reputational risk is assessed on an entity based approach whereby the region of the RRRP submission is driven by the location of the booking entity. Where a submission relates to a Remote

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

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

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

#### viii) Conduct Risk

Conduct risk is the risk of poor conduct or behaviour of Credit Suisse, its employees, associates or representatives resulting in:

- Financial or non-financial detriment to our clients, customers, counterparties, whether we deal with them directly or via a third party;

Booking, a submission will be made through to EMEA RRRP and the RRAs in other regions will be consulted as appropriate, which may include escalation to the Committee.

#### 40 Offsetting of Financial Assets and Financial Liabilities

The disclosures set out in the tables below include derivative instruments, reverse repurchase and repurchase agreements, securities lending and borrowing transactions, and other assets and liabilities that:

- are offset in the CSi 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 CSi 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 tables below. They are not offset in the Consolidated Statement of Financial Position.

##### Derivatives

The CSi group transacts bilateral OTC derivatives (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 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 CSi group or the counterparties or following other predetermined events. In addition CSi 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 and OTC-cleared derivatives, positive and negative replacement values and related cash collateral are offset if the terms of the rules and regulations governing these exchanges and central clearing counterparties permit such netting and offset because the CSi group:

- 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 settle the liability simultaneously.

To meet criterion (a), the right of set-off:

- (a) must not be contingent on a future event; and
- (b) 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 (b) 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 CSi group has elected to account for substantially all 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 126.

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

(USD millions)		2014			2013		
Group	Gross	Offsetting	Net	Gross	Offsetting	Net	
<b>Derivative Assets</b>							
Derivative instruments subject to enforceable master netting agreements	622,517	(237,054)	385,463	643,799	(294,924)	348,875	
Derivative instruments not subject to enforceable master netting agreements <sup>1</sup>	3,755	–	3,755	6,376	–	6,376	
<b>Total derivative instruments presented in the Consolidated Statement of Financial Position <sup>2</sup></b>	<b>626,272</b>	<b>(237,054)</b>	<b>389,218</b>	<b>650,175</b>	<b>(294,924)</b>	<b>355,251</b>	
of which recorded in trading financial assets at fair value through profit or loss	626,272	(237,054)	389,218	650,175	(294,924)	355,251	
<b>Derivative Liabilities</b>							
Derivative instruments subject to enforceable master netting agreements	622,732	(231,901)	390,831	648,593	(292,498)	356,095	
Derivative instruments not subject to enforceable master netting agreements <sup>1</sup>	6,118	–	6,118	8,797	–	8,797	
<b>Total derivative instruments presented in the Consolidated Statement of Financial Position <sup>2</sup></b>	<b>628,850</b>	<b>(231,901)</b>	<b>396,949</b>	<b>657,390</b>	<b>(292,498)</b>	<b>364,892</b>	
of which recorded in trading financial liabilities at fair value through profit or loss	628,850	(231,901)	396,949	657,390	(292,498)	364,892	

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

<sup>2</sup> On 1 January 2014, the CSi group adopted amendments to IAS 32 "Offsetting Financial Assets and Financial Liabilities" (IAS 32).

Comparative information has been restated accordingly (see Note 2).

(USD millions)		2014			2013		
Bank	Gross	Offsetting	Net	Gross	Offsetting	Net	
<b>Derivative Assets</b>							
Derivative instruments subject to enforceable master netting agreements	622,517	(237,054)	385,463	643,799	(294,924)	348,875	
Derivative instruments not subject to enforceable master netting agreements <sup>1</sup>	3,910	–	3,910	6,768	–	6,768	
<b>Total derivative instruments presented in the Statement of Financial Position <sup>2</sup></b>	<b>626,427</b>	<b>(237,054)</b>	<b>389,373</b>	<b>650,567</b>	<b>(294,924)</b>	<b>355,643</b>	
of which recorded in trading financial assets at fair value through profit or loss	626,427	(237,054)	389,373	650,567	(294,924)	355,643	
<b>Derivative Liabilities</b>							
Derivative instruments subject to enforceable master netting agreements	622,732	(231,902)	390,830	648,593	(292,498)	356,095	
Derivative instruments not subject to enforceable master netting agreements <sup>1</sup>	6,271	–	6,271	9,110	–	9,110	
<b>Total derivative instruments presented in the Statement of Financial Position <sup>2</sup></b>	<b>629,003</b>	<b>(231,902)</b>	<b>397,101</b>	<b>657,703</b>	<b>(292,498)</b>	<b>365,205</b>	
of which recorded in trading financial liabilities at fair value through profit or loss	–	–	–	657,703	(292,498)	365,205	

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

<sup>2</sup> On 1 January 2014, the CSi group adopted amendments to IAS 32 "Offsetting Financial Assets and Financial Liabilities" (IAS 32).

Comparative information has been restated accordingly (see Note 2).

## 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.

Bilateral reverse repurchase and repurchase transactions are netted in the Consolidated Statement of Financial Position if the global master repurchase agreements permit such netting and offset because CSi group.

- 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 settle the liability simultaneously.

The net settlement criterion in (b) will also be met, if the CSi 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. Transactions under these similar agreements are not netted in the Consolidated Statement of Financial Positions 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 Positions 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 CSi group with the right to liquidate the collateral held. As is the case in CSi group's normal course of business, the majority of all of the collateral received that may be sold or repledged was sold or repledged as of December 31, 2014 and December 31, 2013. 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

Group and Bank (USD Millions)	2014			2013		
	Gross	Offsetting	Net	Gross	Offsetting	Net
<b>Securities purchased under resale agreements and securities borrowing transactions</b>						
Securities purchased under resale agreements	35,966	(977)	34,989	25,927	(1,348)	24,579
Securities borrowing transactions	2,751	–	2,751	1,968	–	1,968
<b>Total subject to enforceable master netting agreements</b>	<b>38,717</b>	<b>(977)</b>	<b>37,740</b>	<b>27,895</b>	<b>(1,348)</b>	<b>26,547</b>
<b>Total not subject to enforceable master netting agreements<sup>1</sup></b>	<b>155</b>	<b>–</b>	<b>155</b>	<b>1,400</b>	<b>–</b>	<b>1,400</b>
<b>Total<sup>2</sup></b>	<b>38,872</b>	<b>(977)</b>	<b>37,895</b>	<b>29,295</b>	<b>(1,348)</b>	<b>27,947</b>

<sup>1</sup> 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.

<sup>2</sup> USD 4,449 million (2013 USD 7,597 million) of the total net amount are reported at fair value.

On 1 January 2014, the CSi group adopted amendments to IAS 32 "Offsetting Financial Assets and Financial Liabilities" (IAS 32).

Comparative information has been restated accordingly (see Note 2).

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

Group and Bank (USD Millions)	2014			2013		
	Gross	Offsetting	Net	Gross	Offsetting	Net
<b>Securities sold under repurchase agreements and securities lending transactions</b>						
Securities sold under repurchase agreements	8,818	(977)	7,841	11,066	(1,348)	9,718
Securities lending transactions	6,133	–	6,133	1,959	–	1,959
<b>Total subject to enforceable master netting agreements</b>	<b>14,951</b>	<b>(977)</b>	<b>13,974</b>	<b>13,025</b>	<b>(1,348)</b>	<b>11,677</b>
<b>Total not subject to enforceable master netting agreements<sup>1</sup></b>	<b>–</b>	<b>–</b>	<b>–</b>	<b>250</b>	<b>–</b>	<b>250</b>
<b>Total<sup>2</sup></b>	<b>14,951</b>	<b>(977)</b>	<b>13,974</b>	<b>13,275</b>	<b>(1,348)</b>	<b>11,927</b>

<sup>1</sup> Represents securities sold under repurchase agreements and securities lending transactions where a legal opinion supporting the enforceability of netting in the event of default or termination under the agreement is not in place.

<sup>2</sup> USD 5,620 million (USD 8,239) of the total net amount are reported at fair value.

On 1 January 2014, the CSi group adopted amendments to IAS 32 "Offsetting Financial Assets and Financial Liabilities" (IAS 32).

Comparative information has been restated accordingly (see Note 2).

The following table presents the gross amount of Financial assets designated at fair value through profit or loss subject to enforceable master netting agreements, the amount of offsetting, the amount of Financial assets designated at fair value through profit

or loss not subject to enforceable master netting agreements and the net amount presented in the Consolidated Statement of Financial Position.



## Offsetting of Funded Derivatives Assets

Group and Bank (USD Millions)	2014			2013		
	Gross	Offsetting	Net	Gross	Offsetting	Net
<b>Funded Derivatives Assets<sup>1</sup></b>						
Funded Derivative instruments subject to enforceable master netting agreements	599	–	599	1,557	–	1,557
Funded Derivative instruments not subject to enforceable master netting agreements <sup>2</sup>	2,711	–	2,711	3,037	–	3,037
<b>Total Funded Derivatives Assets</b>	<b>3,310</b>	<b>–</b>	<b>3,310</b>	<b>4,594</b>	<b>–</b>	<b>4,594</b>

<sup>1</sup> These represent funded derivatives included under Loans in Financial assets designated at fair value through profit or loss.

<sup>2</sup> Represents Funded Derivatives where a legal opinion supporting the enforceability of netting in the event of default or termination under the agreement is not in place.

The following table presents the gross amount of Financial liabilities designated at fair value through profit or loss subject to enforceable master netting agreements, the amount of offsetting, the amount of

Financial liabilities designated at fair value through profit or loss not subject to enforceable master netting agreements and the net amount presented in the Consolidated Statement of Financial Position.

## Offsetting of Funded Derivatives Liabilities

Group and Bank (USD Millions)	2014			2013		
	Gross	Offsetting	Net	Gross	Offsetting	Net
<b>Funded Derivatives Liabilities<sup>1</sup></b>						
Funded Derivative instruments subject to enforceable master netting agreements	2,598	–	2,598	3,913	–	3,913
Funded Derivative instruments not subject to enforceable master netting agreements <sup>2</sup>	353	–	353	350	–	350
<b>Total Funded Derivatives Liabilities</b>	<b>2,951</b>	<b>–</b>	<b>2,951</b>	<b>4,263</b>	<b>–</b>	<b>4,263</b>

<sup>1</sup> These represent funded derivatives included under structured notes in Financial liabilities designated at fair value through profit or loss.

<sup>2</sup> Represents Funded Derivatives where a legal opinion supporting the enforceability of netting in the event of default or termination under the agreement is not in place.

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 Financial assets and liabilities designated at fair value through profit or loss 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

Group and Bank (USD million)	2014				2013			
	Net <sup>1</sup>	Financial instruments <sup>2</sup>	Cash collateral received/pledged <sup>2</sup>	Net exposure	Net <sup>1</sup>	Financial instruments <sup>2</sup>	Cash collateral received/pledged <sup>2</sup>	Net exposure
<b>Financial assets subject to enforceable master netting agreements</b>								
Derivative instruments	385,463	(343,805)	(21,859)	19,799	348,875	(315,829)	(18,539)	14,507
Securities purchased under resale agreements	34,989	(34,989)	–	–	24,579	(24,579)	–	–
Securities borrowing transactions	2,751	(2,751)	–	–	1,968	(1,965)	–	3
Financial assets designated at fair value through profit or loss	599	(485)	–	114	1,557	(521)	–	1,036
<b>Total financial assets subject to enforceable master netting agreements<sup>3</sup></b>	<b>423,802</b>	<b>(382,030)</b>	<b>(21,859)</b>	<b>19,913</b>	<b>376,979</b>	<b>(342,894)</b>	<b>(18,539)</b>	<b>15,546</b>
<b>Financial liabilities subject to enforceable master netting agreements</b>								
Derivative instruments	390,831	(346,899)	(30,260)	13,672	356,095	(322,553)	(23,472)	10,070
Securities sold under repurchase agreements	7,841	(7,841)	–	–	9,718	(9,718)	–	–
Securities lending transactions	6,133	(6,133)	–	–	1,959	(1,959)	–	–
Financial liabilities designated at fair value through profit or loss	2,598	(575)	–	2,023	3,913	(763)	–	3,150
<b>Total financial liabilities subject to enforceable master netting agreements<sup>3</sup></b>	<b>407,403</b>	<b>(361,448)</b>	<b>(30,260)</b>	<b>15,695</b>	<b>371,685</b>	<b>(334,993)</b>	<b>(23,472)</b>	<b>13,220</b>

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

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

<sup>3</sup> On 1 January 2014, the CSI group adopted amendments to IAS 32 "Offsetting Financial Assets and Financial Liabilities" (IAS 32).

Comparative information has been restated accordingly (see Note 2).

## 41 Capital Adequacy

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

The Credit Suisse group ('CS group') considers a strong and efficient capital position to be a priority. Consistent with this, CSi 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. The CS group continues to provide confirmation that it will ensure that CSi 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 CSi, 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 Internal Capital Adequacy Assessment Process ('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 SREP ('Supervisory Review and Evaluation Process') review that the PRA conducts when assessing an institution's level of regulatory capital.

### Own Funds

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

CSi'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 2014 the bank received no capital injections. There was, however, a reorganisation within CET1 comprising the conversion of participating shares into ordinary shares. In 2013, CSi received a Tier 1 capital injection of USD 10 billion participating shares and a Tier 2 capital injection of USD 1.1 billion subordinated debt in order to support the business.

Other movements in capital resources were as follows:

	2014	2013
<b>Regulatory capital less deductions (USD million)</b>		
<b>Total regulatory capital less deductions at 1 January</b>	<b>32,680</b>	<b>22,042</b>
Changes in Tier 1 instruments:		
Capital injections	-	10,000
Changes in Tier 2 instruments:		
Subordinated debt issued	-	1,100
Net movement on Tier 2 capital (amortisation and currency translation) <sup>1</sup>	(93)	(24)
Profit and loss and movements in other comprehensive income (including solo-consolidated entities) <sup>2</sup>	(1,040)	(573)
Net movement in regulatory deductions and prudential filters	(1,195)	135
<b>Total regulatory capital less deductions at 31 December</b>	<b>30,352</b>	<b>32,680</b>

<sup>1</sup> Net movement on Tier 2 capital includes amortisation, currency translation and derecognition due to ineligibility under CRR

<sup>2</sup> CSi is not subject to solo-consolidation from 1st January, 2014

Under the Basel Committee guidelines, an institution must have a ratio of own funds to aggregate risk-weighted assets of at least 8%. In addition, the EBA requires a CET1 ratio of 4% and a Tier 1 ratio of 5.5% in 2014 (CET1 ratio of 4.5% and a Tier 1 ratio of 6% in 2015). The risk weighted assets reflect the credit, market,

operational and other risks of the Bank calculated using methodologies set out in the CRR.

CSi must at all times monitor and demonstrate compliance with the relevant own funds requirements of the CRR. CSi 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 CSI's own funds at 31 December 2014 and 2013.

	2014	2013
<b>Regulatory capital less deductions (USD millions)</b>		
Total shareholders' equity-Bank	23,988	25,041
Reserves of solo-consolidated entities	–	(13)
<b>Shareholders' equity<sup>1</sup></b>	<b>23,988</b>	<b>25,028</b>
Other deductions:		
Regulatory deductions	(364)	(433)
Excess of expected loss amounts over credit risk adjustments	(162)	–
Prudential filters <sup>2</sup>	(1,098)	37
<b>Total Tier 1 capital</b>	<b>22,364</b>	<b>24,632</b>
<b>Tier 2 capital</b>		
Subordinated debt	7,988	8,081
<b>Total Tier 2 capital</b>	<b>7,988</b>	<b>8,081</b>
<b>Total Tier 1 and Tier 2 capital</b>	<b>30,352</b>	<b>32,713</b>
Deductions (Securitisation Positions) <sup>3</sup>	–	(33)
<b>Total Tier 1 plus Tier 2 capital less Deductions</b>	<b>30,352</b>	<b>32,680</b>

<sup>1</sup> CSI is not subject to solo-consolidation from 1st January, 2014 (2013 comparatives shown on a solo consolidation basis)

<sup>2</sup> Includes Prudent Valuation adjustment from 1st January, 2014

<sup>3</sup> Deductions for securitisation positions are applied to CET1 under CRR

## 42 PRA Pillar 3 disclosures

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

## 43 Country-by-Country Reporting

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

## 44 Subsequent Events

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

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





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