KPMG

Illustrative Consolidated Financial Statements

FINMA Circular 15/01 Accounting - banks

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1. Preliminary remarks

The Swiss Financial Market Supervisory Authority ("FINMA") Circular ("Circ.") 15/01 "Accounting - banks / Accounting rules for banks, securities dealers, financial groups and conglomerates" (hereafter "the Circular" or Accounting rules for banks, securities dealers, financial groups and conglomerates ("ARB")) has replaced the FINMA Circ. "Accounting - banks / Guidelines on accounting standards under Art. 23 to Art. 27 of the Banking Ordinance" (hereafter "FINMA Circ. 08/02"). Its purpose is to complement and specify the provisions on accounting and filing financial reports set out by the revised version of the Swiss Code of Obligations ("CO"), the revised Federal Act on Banks and Savings Banks ("BA") and the revised Federal Ordinance on Banks and Savings Banks ("BO"). The Circular introduces changes with respect to presentation requirements applicable to the minimum structure of the financial statements. It is binding for financial periods commencing on or after 1 January 2015. Transitional provisions are applicable to some key areas, such as individual valuation and goodwill depreciation.

This KPMG publication aims to support companies in their first application of the Circular as far as the presentation of the consolidated annual financial statements is concerned. These illustrative financial statements present the possible consolidated financial reporting for the year 2015, i.e. the first business year after the Circular's first application. The following illustrative financial statements are purely fictional and meant for illustrative purposes only (no claim for completeness). Any similarities with existing companies are purely coincidental. Therefore, the information contained in these illustrative financial statements cannot necessarily be applied to the circumstances of a specific company. In individual cases, the complete text of the Circular should be consulted.

The fictional company "Swiss Bank" is a medium-sized universal bank listed on the stock market with subsidiaries in and outside Switzerland. These illustrative financial statements present the consolidated financial statements of the Swiss Bank Group. Requirements related to the management report (Article 961 CO), FINMA Circ. 08/24 on supervision and internal controls and FINMA Circ. 08/22 on the publication of the bank's own equity are not dealt with in this publication.

2. Highlights - New disclosure requirements

This section comments the new disclosure requirements applicable to the balance sheet, the off-balance-sheet, the income statement, the cash flow statement, the statement of changes in equity and the notes. **Changes from the previous circular are highlighted in green.**

2.1 Balance sheet

The minimum structure of the balance sheet set by the BO and the Circular foresees few amendments, mainly related to the financial instruments held by the bank. There are three new categories of financial instruments: "Amounts due from securities financing transactions", "Positive replacement values of derivative financial instruments" and "Other financial instruments at fair value". These three categories have also been inserted on the liability side with one additional item for "Trading portfolio liabilities". ARB 75 to 117

Value adjustments are to be allocated to and deducted from the corresponding assets. Until 31 December 2016, it is permitted to present value adjustments globally as a negative amount on the asset side. If the transitional provision is applied, additional information on the value adjustments has to be disclosed in the notes. BO 69.1 / ARB 626

2.2 Off-balance-sheet

The requirements for the presentation of the off-balance-sheet positions are similar to those prevailing under FINMA Circ. 08/02. ARB 118 to 122

2.3 Income statement

The overall structure of the income statement is similar to the one prevailing under FINMA Circ. 08/02. A new account called "Changes in value adjustments for default risks and losses from interest operations", which is included in the calculation of the "Subtotal net result from interest operations" has been created. The item "Income from trading activities" has been re-labelled "Result from trading activities and the fair value option". In addition, "Depreciation and amortization of fixed assets" and "Value adjustments, provisions and losses" have been replaced by "Value adjustments on participations and depreciation and amortization of tangible fixed assets and intangible assets" and "Changes to provisions and other value adjustments, and losses". A new item called "Changes in reserves for general banking risks" has been added below the subtotal "Operating result". ARB 125 to 159

2.4 Cash flow statement

A cash flow statement is required for consolidated financial statements and single-entity true and fair view financial statements. If a financial group publishes consolidated financial statements, all entities within the scope of consolidation are exempt from preparing a cash flow statement in their statutory accounts (consolidation rebate). However, this does not apply if the entity is listed on a stock exchange. As for question 13 of the FINMA "Frequently Asked Questions (FAQs)" on the Circular issued on 22 July 2015, the presentation of previous-year figures of the cash flow statement is not required for financial year 2015. ARB 170 / 327 / 341 / A6-1 to A6-9 / Article 36(1) BO

2.5 Statement of changes in equity

The statement of changes in equity is no longer included in the notes (table G in FINMA Circ. 08/02) as it now constitutes an integral component of the financial statements. Presentation requirements are outlined in Annex 4 of the Circular. ARB 171 to 172 / A4

2.6 Notes

The notes are part of the financial statements and complement the balance sheet, the off-balance-sheet, the income statement, the cash flow statement and the statement of changes in equity. Changes in the structure and content of the notes are discussed in the following section. Comparative figures from the previous year must be disclosed. In the first year of adoption, banks however have the right to leave out comparative figures in the cash flow statement and the notes if the comparatives relate to new disclosures requirements. ARB 173 to 174 / 627

Name of the bank, its legal form and domicile

ARB 182

The content of the first section of the notes was changed. Mandatory information under the previous circular (e.g. number of employees) is no longer required.

Accounting and valuation principles

ARB 183 to 190

This section has to be adapted to reflect the applicable changes in accounting and valuation principles (e.g. use of the fair value option or employee participation schemes).

Explanations of risk management, in particular on the treatment of interest rate risk, other market risks and credit risks ARB 191
This section remains unchanged.

Explanation of the methods used for identifying default risks and determining the need for value adjustments ARB 192
This is a new mandatory section.

Explanations of the valuation of collateral, in particular key criteria for the calculation of the current market value and the lending value ARB 193
This is a new mandatory section.

Explanations of the Group's business policy regarding the use of derivative financial instruments, including explanations relating to the use of hedge accounting ARB 194 / A5-2 to A5-8
This is a new mandatory section.

Explanation of material events occurring after the balance sheet date ARB 195
This is a new mandatory section.

Reasons that led to the premature resignation of the auditor ARB 196
This is a new mandatory section.

2.6.1 Breakdown of securities financing transactions (assets and liabilities) [ARB Table 1]

This note replaces the former table O in FINMA Circ. 08/02. The presentation of securities financing transactions remains the same with the exception that the breakdown of fair value securities received and serving as collateral must be presented on a gross basis (i.e. "repledged securities" and "resold securities" are no longer added). ARB 198 / A5-9

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2.6.2 Presentation of collateral for loans / receivables and off-balance-sheet transactions, as well as impaired loans / receivables [ARB Table 2]

This note replaces the former table B in FINMA Circ. 08/02. The breakdown of loans / receivables presents the situation before netting with value adjustments. The total loans reported at the bottom of the table disclose the situation before and after netting with value adjustments. ARB 199 / A5-10 to A5-16

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2.6.3 Breakdown of trading portfolios and other financial instruments at fair value (assets and liabilities) [ARB Table 3]

This note replaces the former table C in FINMA Circ. 08/02. In order to reflect the new categories of financial instruments to be disclosed in the balance sheet, the category "Other financial instruments at fair value" is disclosed separately on both the asset and liability side. A breakdown of the trading portfolio on the liability side must also be presented. ARB 200 / A5-17

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2.6.4 Presentation of derivative financial instruments (assets and liabilities) [ARB Table 4]

This note replaces the former table L in FINMA Circ. 08/02. Additional disclosures are to be reported at the bottom of the table. These include the amount of derivative financial instruments determined using a valuation model as well as a breakdown of derivative replacement values by counterparty. ARB 201 / A5-18 to A5-29

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2.6.5 Breakdown of financial investments [ARB Table 5]

This note replaces the former table C in FINMA Circ. 08/02. For debt securities, a breakdown of counterparties by rating is to be presented. This information must only be disclosed if the holdings of debt securities are material. The rating agency used for the ratings is to be mentioned. ARB 202 / A5-30

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2.6.6 Presentation of non-consolidated participations [ARB Table 6]

This note replaces the former table D in FINMA Circ. 08/02. In the consolidated financial statements, participations are presented using the equity method. Participations are to be presented broken down by "with market value" and "without market value". ARB 203 / A5-31 to A5-33

Where a financial group prepares and publishes consolidated financial statements and a group management report, the banks consolidated in the group are exempted from disclosing this note in their single-entity financial statements. This exemption does not apply to listed banks. ARB 327 / 328 / 341

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2.6.7 Disclosure of companies in which the Group holds a permanent direct or indirect significant participation [ARB Table 7]

This note complements the note "Presentation of non-consolidated participations" (refer to 2.6.6). Significant participations are to be disclosed. It must be explained which participations are consolidated, disclosing the consolidation method used. Participations that are not consolidated because they were acquired without strategic intent are to be disclosed separately. Reasons must be given for the decision to waive consolidation, with disclosures that enable the reader to assess the significance of the participation. Any contractual ties must be disclosed. ARB 204 / A5-34 to A5-37

Where a financial group prepares and publishes consolidated financial statements and a group management report, the banks consolidated in the group are exempted from disclosing this note in their single-entity financial statements. This exemption does not apply to listed banks. ARB 327 / 329 / 341

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2.6.8 Presentation of tangible fixed assets [ARB Table 8]

This note replaces the former table M in FINMA Circ. 08/02. A new item "Proprietary or separately acquired software" has been included and tangible assets acquired under finance leases now have to be broken down according to different categories. In the consolidated financial statements, the impact of any changes in the scope of consolidation has to be disclosed in a separate column. In addition, the bank has to disclose the total amount of non-recognized lease commitments (operating leases), including their maturity structure, with separate disclosure of the obligations that can be terminated within one year. Where tangible fixed assets are immaterial or where their book value is less than 10 million Swiss francs, the breakdown may be limited to the gross additions and disposals and depreciation for the current year. ARB 205 / A5-38 to A5-43

Where a financial group prepares and publishes consolidated financial statements and a group management report, the banks consolidated in the group are exempted from disclosing this note in their single-entity financial statements. This exemption does not apply to listed banks. ARB 327 / 330 / 341

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2.6.9 Presentation of intangible assets [ARB Table 9]

This note relates to the item "Intangible assets" that has to be disclosed separately on the balance sheet. In consolidated financial statements, the impact of any changes in the scope of the consolidation has to be disclosed in a separate column. Where intangible assets are immaterial or where their book value is less than 10 million Swiss francs, the breakdown may be limited to the gross additions and disposals and depreciation for the current year. ARB 206 / A5-44 to A5-47

Where a financial group prepares and publishes consolidated financial statements and a group management report, the banks consolidated within the group are exempted from disclosing this note in their single-entity financial statements. This exemption does not apply to listed banks. ARB 327 / 331 / 341

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2.6.10 Breakdown of other assets and other liabilities [ARB Table 10]

Banks were already required to present the composition of other assets and liabilities in the notes as per margin nos. 63 and 76 of FINMA Circ. 08/02. However, the new table presents a breakdown of other assets and other liabilities with a list of sub-items representing the mandatory minimum content. Any other material sub-items are to be added. ARB 207 / A5-48

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2.6.11 Disclosure of assets pledged or assigned to secure own commitments and of assets under reservation of ownership [ARB Table 11]

This note replaces the former table O in FINMA Circ. 08/02. It remains similar in terms of content and presentation. ARB 208 / A5-49

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2.6.12 Disclosure of liabilities relating to own pension schemes, and number and nature of equity instruments of the Group held by own pension schemes [ARB Table 12]

This note replaces the former requirements "Disclosure of liabilities relating to own pension and welfare funds" of margin nos. 167 to 167c in FINMA Circ. 08/02. The main difference is the disclosure of the number and the nature of equity instruments of the bank held by the bank's staff pension schemes. ARB 209 / A5-50 to A5-51

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2.6.13 Disclosures on the economic situation of own pension schemes [ARB Table 13]

This note replaces the former requirements of margin nos. 167 to 167c in FINMA Circ. 08/02. In comparison to FINMA-Circ. 08/02 margin nos. 167a-3 and 167a-4, the list of sub-items to be disclosed under the presentation of the economic benefit / obligation and pension expenses has to differentiate between plans with overfunding and plans with underfunding. ARB 210 / A5-52 to A5-58

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2.6.14 Presentation of issued structured products [ARB Table 14]

This note is a new requirement of the Circular and relates to the structured products issued by the bank itself. Structured products are to be classified on the basis of the underlying risk of the embedded derivative covering pre-defined categories. ARB 211 / A5-59 to A5-60

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2.6.15 Presentation of bonds outstanding and mandatory convertible bonds [ARB Table 15]

This note replaces the former table O in FINMA Circ. 08/02. The biggest difference is the breakdown of bonds outstanding and mandatory convertible bonds that must presented according to the following categories: "Non-subordinated", "Subordinated without PONV[1] clause" and "Subordinated with PONV clause". If a bank has issued more than 20 bonds, this information can be disclosed as a summary. For consolidated financial statements, this note has to be disclosed broken down by issuer. ARB 212 / A5-61 to A5-62

[1] Point of non-viability (PONV).

Where a financial group prepares and publishes consolidated financial statements and a group management report, the banks consolidated in the group are exempted from disclosing this note in their single-entity financial statements. This exemption does not apply to listed banks. ARB 327 / 332 / 341

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2.6.16 Presentation of value adjustments and provisions, reserves for general banking risks, and changes therein during the current year [ARB Table 16]

This note replaces the former table E in FINMA Circ. 08/02. Additional breakdowns related to "Value adjustments for default and country risks" are required. In consolidated financial statements, the impact of any changes in the scope of the consolidation is to be disclosed in a separate column. Should a bank require additional time for the changeover with regards to the deduction of value adjustments from its asset items, it can apply the transitional provisions of Article 69 para. 1 BO. In this case, the value adjustments and their movements during the year are to be disclosed separately in this note. ARB 213 / 626 / A5-63 to A5-68

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2.6.17 Number and value of shares or options on shares held by all executives and directors and by employees, and disclosures on any employee participation schemes [ARB Table 18]

This note constitutes a new requirement set out by the Circular and corresponds to the requirements of Article 959c para. 2 (11) CO. In addition to the figures reported in the table, the general conditions of the employee participation schemes are to be disclosed. Moreover, it must be explained how the present value and the expense recognized in the result of the period were calculated. ARB 215 / A5-71 to A5-72

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2.6.18 Disclosure of amounts due from / to related parties [ARB Table 19]

This note replaces the former requirements of margin nos. 182 to 184c in FINMA Circ. 08/02. "Amounts due from / to related parties" is now broken down into five categories. ARB 216 / A5-73 to A5-78

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2.6.19 Disclosure of own shares [ARB Table 21]

This note constitutes a new requirement. In this note both information related to own equity securities and to transactions with holders of participations in their capacity as holders of participations has to be disclosed. ARB 218 / 585 / A5-82 to A5-92

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2.6.20 Presentation of the maturity structure of financial instruments [ARB Table 23]

This note replaces the former table H in FINMA Circ. 08/02. While the level of disclosure required remains the same, the structure of the accounts has been amended to reflect the new minimum structure of the Circular. ARB 220 / A5-104 to A5-108

Where a financial group prepares and publishes consolidated financial statements and a group management report, the banks consolidated in the group are exempted from disclosing this note in their single-entity financial statements. This exemption does not apply to listed banks. ARB 327 / 333 / 341

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2.6.21 Presentation of assets and liabilities by domestic and foreign origin in accordance with the domicile principle [ARB Table 24]

This note replaces the former table I in FINMA Circ. 08/02. The asset and liability structure reported in this table has been amended to reflect the new chart of accounts. This note has to be prepared if at least 5% of the assets of the bank or financial group are domiciled abroad. The calculation is based on the average of the last three business years prior to the current period. The domicile principle is defined in Annex 7 of the Circular. ARB 221 / A5-109 to A5-110 / A7

Where a financial group prepares and publishes consolidated financial statements and a group management report, the banks consolidated in the group are exempted from disclosing this note in their single-entity financial statements. This exemption does not apply to listed banks. ARB 327 / 334 / 341

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2.6.22 Breakdown of total assets by country or group of countries (domicile principle) [ARB Table 25]

This note replaces the former table J in FINMA Circ. 08/02. The breakdown of assets by country or group of countries is to be prepared if at least 5% of the assets of the bank or financial group are domiciled abroad. The calculation is based on the average of the last three business years prior to the current period. The domicile principle is defined in Annex 7 of the Circular. ARB 222 / A5-111 to A5-113 / A7

Where a financial group prepares and publishes consolidated financial statements and a group management report, the banks consolidated the group are exempted from disclosing this note in their single-entity financial statements. This exemption does not apply to listed banks. ARB 327 / 335 / 341

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2.6.23 Breakdown of total assets by credit rating of country groups (risk domicile view) [ARB Table 26]

This note constitutes a new requirement of the Circular. It is to be prepared, provided at least 5% of the assets of the bank or financial group are domiciled abroad. The calculation is based on the average of the last three business years prior to the current period. The ratings system used is to be explained. The risk domicile is defined in Annex 7 of the Circular. ARB 223 / A5-114

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2.6.24 Presentation of assets and liabilities broken down by the most significant currencies for the Group [ARB Table 27]

This note replaces the former table K as per FINMA Circ. 08/02. It is to be prepared if the total net position of the bank or financial group in foreign currencies exceeds 5% of the assets held by the bank or financial group. The calculation is based on the average of the last three business years prior to the current period. While the asset and liability structure reported in this table has been amended to reflect the new minimum structure, the level of required disclosures remains unchanged compared to FINMA Circ. 08/02. ARB 224 / A5-115 to A5-116

Where a financial group prepares and publishes consolidated financial statements and a group management report, the banks consolidated in the group are exempted from disclosing this note in their single-entity financial statements. This exemption does not apply to listed banks. ARB 327 / 336 / 341

KPMG Illustrative consolidated financial statements → note 24

2.6.25 Breakdown and explanation of contingent assets and liabilities [ARB Table 28]

This note replaces the former requirements of FINMA Circ. 08/02 margin no. 191. Now, "Contingent assets arising from tax losses carried forward" and "Other contingent assets" must also be presented. Contingent liabilities and contingent assets where no reliable estimate is possible are not to be included in the table. However, such contingent liabilities and assets are to be explained. ARB 226 / A5-117 to A5-118

Where a financial group prepares and publishes consolidated financial statements and a group management report, the banks consolidated in the group are exempted from disclosing this note in their single-entity financial statements. This exemption does not apply to listed banks. ARB 327 / 337 / 341

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2.6.26 Breakdown of credit commitments [ARB Table 29]

This note replaces the former requirements of margin no. 192 of FINMA Circ. 08/02. The granularity of required disclosure remains unchanged compared to FINMA Circ. 08/02. ARB 227 / A5-119

Where a financial group prepares and publishes consolidated financial statements and a group management report, the banks consolidated in the group are exempted from disclosing this note in their single-entity financial statements. This exemption does not apply to listed banks. ARB 327 / 338 / 341

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2.6.27 Breakdown of fiduciary transactions [ARB Table 30]

This note replaces the former requirements of margin no. 198 of FINMA Circ. 08/02. The granularity of required disclosure remains unchanged. ARB 228 / A5-120

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2.6.28 Breakdown of managed assets and presentation of their development [ARB Table 31]

This note replaces the former table Q in FINMA Circ. 08/02. The table must be presented if the balance of both "Commission income from securities trading and investment activities" and "Commission expense" exceeds one third of the total of "Gross result from interest operations", "Result from commission business and services" and "Result from trading activities and the fair value option". The calculation is based on the average of the last three business years prior to the current period. New disclosure requirements relate to the reconciliation of the total managed assets at the beginning and at the end of the period where the respective effect of "Net new money inflow or net new money outflow", "Price gains / losses, interest, dividends and currency gains / losses" and "Other effects" have to be presented. In consolidated financial statements, the impact of any changes in the scope of the consolidation on the total managed assets is to be shown appropriately. When reporting the disclosure of net new money inflows / outflows for the first time, the disclosure of the previous year figures is not mandatory.

ARB 229 / A5-121 to A5-132

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2.6.29 Breakdown of the result from trading activities and the fair value option [ARB Table 32]

This note replaces the former requirements of margin nos. 200 to 202 of FINMA Circ. 08/02 and is applicable as long as the group is not subject to the "de minimis" rule set out by FINMA Circ. 08/20. New disclosure requirements relate to the results from the fair value option that must be disclosed at the bottom of the table.

ARB 231 / A5-133 to A5-136

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2.6.30 Disclosure of material refinancing income in the item "Interest and discount income" as well as material negative interest [ARB Table 33]

This note replaces the former requirements of margin no. 199 of FINMA Circ. 08/02. If negative interest is material, its impact is to be disclosed in the notes to the annual financial statements.

ARB 232 / A3-10 / A3-19 / A5-137

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2.6.31 Breakdown of personnel expenses [ARB Table 34]

This note replaces the former requirements of margin no. 203 of FINMA Circ. 08/02. The granularity of required disclosure remains unchanged with exception of the new disclosure item "Expenses relating to share-based compensation and alternative forms of variable compensation".

ARB 233 / A5-138

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2.6.32 Breakdown of general and administrative expenses [ARB Table 35]

This note replaces the former requirements of margin no. 204 of FINMA Circ. 08/02. New disclosure requirements relate to the fees paid to the audit firm(s) in accordance with Article 961a para. 2 CO. Additionally, compensation for any cantonal guarantee included in the other operating expenses must be disclosed separately. ARB 234 / A5-139

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2.6.33 Explanations regarding material losses, extraordinary income and expenses, as well as material releases of hidden reserves, reserves for general banking risks, and value adjustments and provisions no longer required [ARB Table 36]

This note replaces the former requirements of margin nos. 205 and 205a of FINMA Circ. 08/02. The granularity of required disclosure remains unchanged compared to FINMA Circ. 08/02. ARB 235 / 255 / 533 / A5-140

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2.6.34 Disclosure of and reasons for revaluations of participations and tangible fixed assets up to acquisition cost at maximum [ARB Table 37]

This note replaces the former requirements of margin no. 206 of FINMA Circ. 08/02. The granularity of required disclosure remains unchanged compared to FINMA Circ. 08/02. ARB 236 / A5-141

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2.6.35 Presentation of the operating result broken down according to domestic and foreign origin, according to the principle of permanent establishment [ARB Table 38]

This note replaces the former requirements of FINMA Circ. 08/02. The granularity of required disclosure remains unchanged compared to FINMA Circ. 08/02. This note has to be disclosed if the bank's business abroad is material. ARB 237 / A5-142

Where a financial group prepares and publishes consolidated financial statements and a group management report, the banks consolidated in the group are exempted from disclosing this note in their single-entity financial statements. This exemption does not apply to listed banks. ARB 327 / 339 / 341

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2.6.36 Presentation of current taxes, deferred taxes, and disclosure of tax rate [ARB Table 39]

This note constitutes a new requirement of the Circular. Expenses for current taxes and expenses for deferred taxes are to be disclosed separately. In addition, the average tax rate weighted on the basis of the operating result must be presented. The impact of changes arising from losses carried forward on income taxes is to be quantified and explained.

ARB 238 / 545 / A5-143 to A5-144

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2.6.37 Disclosures and explanations of the earnings per share in the case of listed banks [ARB Table 40]

This note constitutes a new requirement of the Circular. The basic (i.e. non-diluted) and diluted earnings for each share together with explanations related to the method used to calculate these amounts are to be disclosed.

ARB 239 / A5-145

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Please note that the following tables are not required for consolidated financial statements and are thus not included in the illustrative consolidated financial statements:

- Presentation of the bank's capital [ARB Table 17]
- Disclosure of holders of significant participations [ARB Table 20]
- Disclosures in accordance with the Ordinance against Excessive Compensation with respect to Listed Stock Corporations and Article 663c para. 3 CO for banks whose equity securities are listed [ARB Table 22]

3. Illustrative consolidated financial statements

A. Consolidated balance sheet

CHF million

	Notes	31.12.2015	31.12.2014
ASSETS			
Liquid assets		2'951	3'064
Amounts due from banks		501	830
Amounts due from securities financing transactions	1	323	187
Amounts due from customers	2	2'619	2'312
Mortgage loans	2	11'688	10'747
Trading portfolio assets	3	531	362
Positive replacement values of derivative financial instruments	4	198	148
Other financial instruments at fair value	3	122	105
Financial investments	5	1'888	1'861
Accrued income and prepaid expenses		118	119
Non-consolidated participations	6, 7	7	5
Tangible fixed assets	8	212	223
Intangible assets	9	40	45
Other assets	10	24	18
Capital not paid in			
Total assets		**21'222**	**20'026**
Total subordinated claims			
- of which subject to mandatory conversion and / or debt waiver			

A. Consolidated balance sheet (continued)

CHF million

	Notes	31.12.2015	31.12.2014
LIABILITIES			
Amounts due to banks		1'256	939
Liabilities from securities financing transactions	1	516	564
Amounts due in respect of customer deposits		12'696	11'863
Trading portfolio liabilities	3		
Negative replacement values of derivative financial instruments	4	182	227
Liabilities from other financial instruments at fair value	3, 14	118	107
Cash bonds	15	146	262
Bond issues and central mortgage institution loans	15	4'852	4'670
Accrued expenses and deferred income		135	139
Other liabilities	10	45	50
Provisions	16	134	127
Reserves for general banking risks	16	317	317
Bank's capital		50	50
Capital reserve		170	165
Retained earnings reserve		442	370
Currency translation reserve		-1	-2
Own shares	19	-3	-7
Minority interests in equity		31	30
Consolidated profit		136	155
- of which minority interests in consolidated profit		*3*	*3*
Total liabilities		**21'222**	**20'026**
Total subordinated liabilities			
- of which subject to mandatory conversion and / or debt waiver			
OFF-BALANCE-SHEET TRANSACTIONS			
Contingent liabilities	2, 25	385	388
Irrevocable commitments	2	684	663
Obligation to pay up shares and make further contributions			
Credit commitments	2, 26	10	15

B. Consolidated income statement

CHF million

	Notes	2015	2014
Result from interest operations			
Interest and discount income	30	337	371
Interest and dividend income from trading portfolios			
Interest and dividend income from financial investments		34	35
Interest expense		-113	-126
Gross result from interest operations		**258**	**280**
Changes in value adjustments for default risks and losses from interest operations		-20	
Subtotal net result of interest operations		**238**	**280**
Result from commission business and services			
Commission income from securities trading and investment activities		143	141
Commission income from lending activities		27	30
Commission income from other services		47	40
Commission expense		-40	-39
Subtotal result from commission business and services		**177**	**172**
Result from trading activities and the fair value option	29	**80**	**77**
Other result from ordinary activities			
Result from the disposal of financial investments		4	6
Income from participations		2	2
- of which, participations recognised using the equity method		*2*	*2*
- of which, from other non-consolidated participations			
Result from real estate		35	28
Other ordinary income		12	8
Other ordinary expenses		-4	-3
Subtotal other result from ordinary activities		**49**	**41**
Operating expenses			
Personnel expenses	31	-236	-225
General and administrative expenses	32	-124	-123
Subtotal operating expenses		**-360**	**-348**
Value adjustments on participations and depreciation and amortisation of tangible fixed and intangibles assets		-26	-18
Changes to provisions and other value adjustments, and losses		-2	-2
Operating result		**156**	**202**
Extraordinary income	33	19	9
Extraordinary expenses	33		-6
Change in reserves for general banking risks	33		
Taxes	36	-39	-50
Consolidated profit		**136**	**155**
- of which minority interests in consolidated profit		*3*	*3*

C. Consolidated cash flow statement

CHF million

	2015	
	Cash inflow	Cash outflow
Cash flow from operating activities (internal financing)		
Consolidated profit	136	
Change in reserves for general banking risks		
Value adjustments on participation, depreciation and amortisation of tangible fixed assets and intangible assets	26	
Provisions and other value adjustments	2	
Change in value adjustments for default risks and losses	20	
Accrued income and prepaid expenses	1	
Accrued expenses and deferred income		4
Other items		15
Previous year's dividend		82
Subtotal	**185**	**101**
Cash flow from shareholder's equity transactions		
Bank's capital		
Recognised in reserves		
Change in own equity securities	10	2
Subtotal	**10**	**2**
Cash flow from transactions in respect of participations, tangible fixed assets and intangible assets		
Non-consolidated participations		
Other tangible fixed assets	10	20
Intangible assets		
Subtotal	**10**	**20**

C. Consolidated cash flow statement (continued)

CHF million

	2015	
	Cash inflow	Cash outflow
Cash flow from banking operations		
Medium and long-term business (> 1 year)		
Amounts due to banks	25	
Amounts due in respect of customer deposits	11	
Liabilities from other financial instruments at fair value		
Cash bonds		116
Bonds	15	
Central mortgage institution loans	167	
Other liabilities		5
Amounts due from banks	15	
Amounts due from customers		81
Mortgage loans		941
Other financial instruments at fair value		
Financial investments		22
Other accounts receivable		6
Short-term business		
Amounts due to banks	292	
Liabilities from securities financing transactions		48
Amounts due in respect of customer deposits	822	
Trading portfolio liabilities		
Negative replacement values of derivative financial instruments		45
Liabilities from other financial instruments at fair value	11	
Amounts due from banks	314	
Amounts due from securities financing transactions		136
Amounts due from customers		226
Trading portfolio assets		169
Positive replacement values of derivative financial instruments		50
Other financial instruments at fair value		17
Financial investments		5
Liquidity		
Liquid assets	113	
Subtotal	**1'785**	**1'867**
Total	**1'990**	**1'990**

D. Consolidated statement of changes in equity

CHF million

	Bank's Capital	Capital reserve	Retained earnings reserve	Reserves for general banking risks	Currency translation reserves	Own shares	Minority interests	Result of the period	Total
Equity at 01.01.2015	**50**	**165**	**367**	**317**	**-2**	**-7**	**30**	**155**	**1'075**
Effect of any restatement			3						3
Balance at 01.01.2015, after restatement	**50**	**165**	**370**	**317**	**-2**	**-7**	**30**	**155**	**1'078**
Transfer of profits to retained earnings			152				3	-155	
Employee participation schemes / recognition in reserves		1							1
Capital increase / decrease									
Other contributions / other capital paid in									
Acquisition of own shares						-2			-2
Disposal of own shares						6			6
Profit (loss) on disposal of own shares		4							4
Currency translation differences					1				1
Dividends and other distributions			-80				-2		-82
Other allocations to (transfers from) the reserves for gerneral banking risks									
Other allocations to (transfers from) the other reserves									
Consolidated profit								136	136
Equity at 31.12.2015	**50**	**170**	**442**	**317**	**-1**	**-3**	**31**	**136**	**1'142**

E. Notes to the consolidated financial statements

I. Name of the bank, its legal form and domicile

The Swiss Bank (hereafter "the Bank") was registered on 1 January 2000 as a stock corporation company and is domiciled in Rue du Rhône in Geneva. The Swiss Bank and its subsidiaries constitute the Swiss Bank Group (hereafter "the Group"). The Group is listed on the Swiss stock exchange (domestic segment).

II. Accounting and valuation principles

General accounting and valuation principles
The consolidated financial statements of the Group have been prepared in accordance with the provisions of the Code of Obligations, the Federal Act on Banks and Savings Banks, its Ordinance and the Swiss Financial Market Supervisory Authority (FINMA) Circ. 15/01 "Accounting – banks". The Group's consolidated financial statements have been prepared in accordance with the true and fair view principle. The Group's accounting principles follow the basis and principles defined in FINMA Circ. 15/01.

Changes in accounting principles
Effective as of 1 January 2015, the Group adopted FINMA Circ. 15/01 "Accounting – banks" (hereafter "FINMA Circ. 15/01").

The opening balances of the consolidated financial statements as at 1 January 2014 as well as the consolidated income statement for 2014 have been restated. The impact of the restatement on the previous year's consolidated financial statements is explained below.

Use of the fair value option: Under previous accounting principles, self-issued structured products were valued individually at nominal value as debt issued by the Bank. Any embedded derivative requiring separation was recognized separately from other assets or liabilities, with subsequent changes in fair value recognized through trading income. Structured products and related financial assets meeting the fair value option criteria were reclassified as "Other financial instruments at fair value", with a net impact on equity of CHF 4.5 million less deferred tax liabilities of CHF 1.2 million.

Recognition principles
All transactions are recognized according to the trade-date principle.

Consolidation principles
Companies in which the Bank directly or indirectly holds a majority of the voting rights, has the power to appoint or revoke the majority of the members of the Board of Directors or the management or exercises control in another way are fully consolidated using the purchase method. Intra-group assets and liabilities as well as expenses and income from intra-group transactions are eliminated, as is their internal result.

Companies over which the Group can exert a significant influence but not control are valued using the equity method. Influence is deemed to be significant where the group holds 20% or more of the voting shares. The equity method is also used for participations of 50% in joint ventures.

E. Notes to the consolidated financial statements (continued)

Companies that are not material to the Group's consolidated financial statements or held with a view to their subsequent sale within the next 12 months are not consolidated. They are stated at cost less appropriate depreciation.

Foreign currencies
The Group's functional and presentation currency is Swiss francs.

Transactions in single-entity financial statements of each Group company that are recorded in a foreign currency are converted at the rate prevailing at the time of the transaction. Assets and liabilities are translated at the exchange rate prevailing on the balance sheet date, except for "Participations", "Tangible fixed assets" and "Intangible assets" which are translated at historical rates. Transactions in foreign currencies during the year are translated at the exchange rates prevailing at the time of the transaction.

Balance sheet items of foreign operations to be consolidated are converted into Swiss francs at year-end exchange rates, with the exception of participations which are translated at historical rates.

Income statement items are translated at the average exchange rate for the period. Differences arising from the translation of participations are recorded directly in shareholders' equity ("Currency translation reserve").

	2015		2014	
	closing rate	average rate	closing rate	average rate
EUR/CHF	1.10	1.05	1.20	1.21
USD/CHF	0.96	0.98	0.99	0.91

Cost of refinancing securities in the trading portfolios
The cost of refinancing securities held in the trading portfolios is netted against interest and dividend income from these portfolios and recorded under "Result from trading activities and the fair value option".

Financial instruments

a) Liquid assets

Cash and cash equivalents comprise ordinary coins and banknotes as well as deposits held with central banks. Liquid assets are recognized at their nominal value.

b) Securities financing transactions

Securities sold subject to a repurchase agreement (repo) and those lent (securities lending) remain on the balance sheet as long as the Group maintains the economic ownership of the rights associated with the securities. Cash amounts received for the sale of these securities or as collateral are presented under "Amounts due to securities financing transactions".

Securities acquired under commitments to sell back (reverse repos) and those borrowed (securities borrowing) are not recognized on the balance sheet as long as the ownership right remains with the seller. Cash amounts paid for the purchase of these securities or as collateral are presented under "Amounts due from securities financing transactions".

E. Notes to the consolidated financial statements (continued)

c) Amounts due from banks, amounts due from customers and mortgage loans

"Amounts due from banks", "Amounts due from customers" and "Mortgage loans" are recognized at their nominal value less any necessary value adjustments. Amounts due in respect of precious metal account deposits are valued at fair value if the precious metal concerned is traded on a price-efficient and liquid market.

Impaired loans, defined as loans for which it is unlikely that the debtor will be able to fulfill his future obligations, are valued on an individual basis and the depreciation is covered by individual value adjustments. Depreciation in value corresponds to the difference between the book value of the loan and the amount which the Bank expects to recover, with due consideration of the counterparty risk and the net proceeds from the realization of any collateral held. Value adjustments are directly deducted from the corresponding assets.

A loan is considered impaired when there are conclusive signs that future contractual payments of principal and/or interest are unlikely or, at the latest, when these payments are more than 90 days overdue. Any interest overdue by more than 90 days is considered non-performing. Any non-performing or impaired interest is no longer credited to the profit and loss account but directly to "Value adjustments and provisions".

A loan is no longer considered as impaired if capital and interest in arrears are repaid, the servicing of the debt has resumed normally, additional tangible guarantees have been obtained for a value in excess of the existing unsecured debt and/or other solvency criteria have been met. The release of value adjustments for default risks that are no longer considered as necessary is recorded in the income position "Changes in value adjustments for default risk and losses from interest operations".

A general value adjustment allowance is made for homogenous credit portfolios consisting of a large number of small positions (e.g. consumer credit). In addition, specific country allowances based on external agency ratings are established where exposures are subject to country-specific risk.

d) Amounts due to banks and amounts due in respect of customer deposits

"Amounts due to banks" and "Amounts due in respect of customer deposits" are recognized at their nominal value. Amounts due in respect of precious metal account deposits are valued at fair value if the precious metal concerned is traded on a price-efficient and liquid market.

e) Trading portfolio assets and trading portfolio liabilities

"Trading portfolio assets" comprises positions in equity securities, debt securities and precious metals held with a trading intent.
"Trading portfolio liabilities" comprises securities sold short as part of the trading business.

Trading positions are measured at fair value with reference to quoted market prices. For positions that are not traded on a price-efficient and liquid market, the fair value is determined using a valuation model. Trading results are recognized through "Result from trading activities and the fair value option".

E. Notes to the consolidated financial statements (continued)

f) Positive and negative replacement values of derivative financial instruments

These items comprise the replacement values for all derivative financial instruments. Results from derivatives are presented under "Result from trading activities and the fair value option", unless derivatives are used for hedging outside of trading. Results from derivatives entered into as part of a hedging relationship are recorded in the compensation account.

g) Assets and liabilities arising from other financial instruments at fair value

These items comprise the assets and liabilities arising from the issuance of structured products for which the Bank has elected to apply the fair value option in accordance with margin nos. 372 to 378 of FINMA Circ. 15/01. Any impact due to a change in the Group's own credit rating is recorded through the compensation account.

For structured products which are separated and valued individually, the host instrument is valued and reported according to the valuation principles applicable to the respective underlying. The derivative is valued at fair value.

h) Financial investments

"Financial investments" comprises securities and precious metals acquired for medium-term and long-term investment purposes, as well as equity securities held neither for trading nor as a long-term investment. Available for sale real estate acquired in connection with credit operations is also included in this position.

Interest-bearing securities held to maturity are carried at cost, with premiums or discounts amortized over the term of the instrument using the amortized cost method. Changes in book value related to default risk are recognized immediately through the income statement item "Changes in value adjustments for default risks and losses from interest operations". Gains and losses arising from the sale or early redemption of held to maturity instruments are recorded on a straight-line basis over the remaining maturity of the securities.

Interest-bearing securities not intended to be held until maturity are valued at the lower of cost or market value. Adjustments in value are recorded under "Other ordinary expenses" or "Other ordinary income". Positions in equity securities and available for sale real estate are also valued at the lower of cost or market value.

Equity securities, own physical precious metal holdings, real estate properties and commodities that have been acquired as a result of credit activities and are intended for resale are valued at the lower of cost or market value. In the case of real estate properties acquired through credit activities and intended for resale, the lower of cost or market value is deemed to be the lower of the acquisition value or the liquidation value. Own physical precious metal holdings included under financial investments that serve to secure obligations arising from precious metal accounts are valued at fair value and recognized in the balance sheet as with the precious metal accounts. Changes in book value are recognized net through the items "Other ordinary expenses" or "Other ordinary income", as appropriate.

i) Non-consolidated participations

"Non-consolidated participations" comprises equity securities of non-consolidated companies which are held as a long-term investment. These participations are recognized at acquisition cost less required value adjustments.

E. Notes to the consolidated financial statements (continued)

Tangible fixed assets

"Tangible fixed assets" are recognized at acquisition cost or production cost (IT developed by the Group for its own use), less accumulated depreciation in subsequent periods. Depreciation is calculated on a straight-line basis over the estimated useful life of the tangible assets but not more than:

- 50 years for real estate;
- 15 years for technical facilities;
- 5 years for machinery, furniture and fittings; and
- 5 years for computer software and hardware.

Any depreciation recorded over the remaining estimated useful life and additional write-offs made subsequent to impairment reviews are credited to the income statement for the period, under "Value adjustments on participations and depreciation and amortization of tangible fixed assets and intangible assets".

The book values are tested for impairment at each balance sheet date. Any additional impairments are to be charged to the income statement. If there is a decline in the value-in-use or a change in the period of use, the book value of the asset concerned is depreciated over the remaining estimated useful life of the asset.

Intangible assets

Assets and liabilities of business units or companies acquired are valued at their current value. If, in this valuation process, the acquisition costs are higher than the net assets, the difference is considered as goodwill and is recognized as an intangible asset. Any negative goodwill (badwill) is immediately recognized through extraordinary income.

Goodwill is recognized on the balance sheet at cost and depreciated on a straight-line basis over its estimated useful life, at the maximum of 5 years. Goodwill is tested for impairment at each balance sheet date. Other intangible assets are depreciated over 3 to 5 years. The book values of intangible assets are tested for impairment at each balance sheet date.

Accrued income/expenses and prepaid expenses/deferred income

These items mainly consist of accrued interest, taxes payable and other accruals and deferrals.

Other assets and other liabilities

These items comprise mainly coupons, indirect taxes, settlement account balances and the compensation account.

Cash bonds

This item consists of cash bonds issued by the Bank. They are carried at nominal value.

Bond issues and central mortgage institution loans

This item comprises borrowings from the central mortgage bond institution, as well as bonds issued by the Group companies. They are stated at nominal value with any discount or premium amortized over the maturity of the instrument using the accrual method.

Pension benefit obligations

Pension benefit obligations are all plans, schemes and arrangements that provide benefits for retirement, death or disability.

E. Notes to the consolidated financial statements (continued)

The economic impact of pension plans are deemed to be either an economic benefit (excess coverage) or an obligation (funding shortfall). In the case of excess coverage, an economic benefit arises if there is a potential positive effect on future cash flows and if it is permissible and intended to either use the surplus or lower the employer's contributions. Future economic benefits are always capitalized when recognition criteria are satisfied. In the case of a funding shortfall, an economic obligation exists if the conditions for creating a provision are met.

Determining the economic impact of the pension plan is based on the financial situation of the pension funds at its latest annual financial reporting date but not more than 12 months ago.

Pension benefit obligations are carried on the balance sheet under "Provisions", while benefits are recognized under "Other assets". Changes from the corresponding value in the previous financial year are recognized for each pension fund under "Personnel expenses". The same accounting method applies to adjusted contributions for the period.

Provisions
Provisions are created to cover legal and factual obligations existing at the balance sheet date that relate to a past event for which an outflow of funds seems probable and which can be estimated reliably. Provisions are not used as value adjustments of assets.

Taxes
The income statement item "Taxes" comprises current and deferred income taxes as well as capital tax.

Current income taxes are calculated on the income for the year at the tax rate applicable in the respective tax jurisdiction of the respective legal entity. Current income taxes are recorded under "Accrued expenses and deferred income".

Deferred income taxes are calculated on the differences between the relevant tax value and the book value. Any deferred tax effects are calculated using the tax rate applicable to the respective legal entity. The annual recognition of deferred taxes is based on a balance sheet perspective and considers all future income tax effects. The actual expected tax rates or, if they are not known, the tax rates applicable at the balance sheet date are relevant. Deferred income tax assets on temporary differences and for losses carried forward are only recorded if they are likely to be realized through sufficient taxable profits in the future.

Lease transactions
Lease transactions are to be differentiated between finance and operating leases according to the substance over form principle. Transactions meeting the criteria mentioned in margin nos. 552 to 555 in FINMA Circ. 15/01 qualify as finance leases. All lease transactions which do not qualify as finance leases are to be considered as operating leases.

Assets used under a financial lease are reported in the item "Tangible fixed assets". Depending on the counterparty, liabilities arising from leases are either reported under "Amounts due to banks" or "Other liabilities". At the start of the lease contract, the asset's book value is determined at the lower of the purchase value, the net market value or the net present value of the future lease payments. The asset is depreciated over its useful life. Payments related to the lease transaction are split into interest and installment repayment components. The installment repayment component is deducted from the lease liability and the interest and other components are recorded in the respective results of the period.

E. Notes to the consolidated financial statements (continued)

Operating leases are not capitalized. Operating leases costs are recognized in the income statement under "General and administrative expenses".

Reserves for general banking risks
Reserves for general banking risks are created on a prudent basis to protect the Bank against general business risks. Reserves for general banking risks are not taxed.

Employee participation schemes
The Group operates a long-term incentive plan under which eligible employees are awarded restricted share units. Each restricted share unit represents a non-transferable right to receive one registered share of Swiss Bank after the vesting date. The Group has no share option plan.

Shares granted are valued at fair value at grant date and recognized as "Personnel expenses" through "Capital reserve" over the vesting period. Any difference on the settlement is recognized through "Capital reserve". The Group's employee participation scheme is a true equity plan and in principle, no subsequent valuation is to be carried out unless there are changes in the exercise or subscription conditions.

III. Explanations of risk management, in particular on the treatment of interest rate risk, other market risks and credit risks

Risk Management Framework
The Group has exposure to the following risks:

- Interest rate risk and other market risks;
- Credit risks;
- Liquidity risk; and
- Operational risks.

This note presents information about the Group's objectives, policies and processes for measuring and managing risks.

The Bank's Board of Directors has the overall responsibility for the establishment and oversight of the Group's risk management framework. The Board of Directors has delegated some of its risk management and control tasks to the Group Audit and Risk Committee. The Group Audit and Risk Committee further oversees how management monitors compliance with the Group's risk management policies and procedures, and reviews the adequacy of the risk management framework in relation to the risks faced by the Group. It is assisted in its oversight role by Internal Audit. Internal Audit undertakes both regular and ad hoc reviews of risk management controls and procedures and reports the results to the Group Audit and Risk Committee. The Group Executive Committee has the overall responsibility for the implementation of the Group's strategy. It is supported by several risk committees and functions at both Group and legal entity level (e.g. Asset and liability committee (ALCO)).

The Group's risk management policies are established to identify and analyze the risks and adherence to limits. The risk management policies and systems are reviewed regularly to reflect changes in market conditions and the Group's activities. The Group, through its training and management standards and procedures, aims to develop a disciplined and constructive control environment in which all employees understand their roles and obligations.

E. Notes to the consolidated financial statements (continued)

Interest rate risk and other market risks (hereafter "Market risks")
Market risks denote the risks of a loss as a result of change in the value of a position due to a change in prices such as interest rates, share of commodity prices, exchange rates and their corresponding volatilities. The objective of the Group's Market Risk management is to manage and control market risk exposures within acceptable parameters to ensure the Group's solvency while optimizing its return on risk.

Management of market risks
The Group separates its exposures to market risk between trading book and banking book. The trading book includes positions arising from market making and proprietary position taking, together with financial assets and financial liabilities that are managed on a fair value basis.

The overall authority for market risks is vested in the ALCO. The ALCO sets up limits for each type of risk in aggregate and for portfolios, with market liquidity being a primary factor in determining the level of limits set for trading portfolios. The Group Market Risk Committee is responsible for the development of detailed risk management policies and for the day-to-day review of their implementation.

The Group employs a range of tools to monitor and limit market risk exposures. These are discussed below, separately for trading and banking book.

Exposure to market risks – Trading book
The principal tool used to measure and control market risk exposures within the Group's trading book is Value-at-Risk (VaR). The VaR of a trading portfolio is the estimated loss that will arise on the portfolio over a specified period of time (holding period) from an adverse market movement with a specified probability (confidence level). The VaR model used by the Group is based on a 99% confidence level and assumes a 10-day holding period. The VaR model used is based mainly on historical simulation. Taking account of market data from the previous two years, and observed relationships between different markets and prices, the model generates a wide range of plausible future scenarios for market price movements.

Although VaR is an important tool for measuring market risks, the assumptions on which the model is based give rise to some limitations, including the following:

- A 10-day holding period assumes that it is possible to hedge or dispose of positions within that period. This may not be the case for illiquid assets or in situations in which there is severe market illiquidity.
- A 99% confidence level does not reflect losses that may occur beyond this level. Even within the model used, there is a 1% probability that losses could exceed the VaR.

The Group uses VaR limits for total market risks and specific foreign exchange, interest rate, equity, credit spread and other price risks. The overall structure of VaR limits is subject to review and approval by ALCO. VaR limits are allocated to trading portfolios. VaR is measured at least daily for more actively traded portfolios. Daily reports of utilization of VaR limits are submitted to Group Market Risk and regular summaries are submitted to ALCO.

E. Notes to the consolidated financial statements (continued)

The limitations of the VaR methodology are recognized by supplementing VaR limits with other position and sensitivity limit structures, including limits to address potential concentration risks within each trading portfolio. In addition, the Group uses a wide range of stress tests to model the financial impact of a variety of exceptional market scenarios on individual trading portfolios and the Group's overall position. The analysis of scenarios and stress tests is reviewed by ALCO.

The Group VaR models are subject to regular validation by Group Market Risk to ensure that they continue to perform as expected, and that assumptions used in the model developments are still appropriate. As part of the validation process, the potential weaknesses of the models are analyzed using statistical techniques, such as back-testing.

Exposure to market risks – Banking book
The principal risk to which the banking book is exposed is the risk of loss from fluctuations in the future cash flows or fair values of financial instruments because of a change in market interest rates. Interest rate risk is managed principally through monitoring interest rate gaps and by having pre-approved cash flows and fair value impact limits for repricing bands. In addition, the Group uses a wide range of stress tests to model the financial impact of exceptional variations in the yield curve.The ALCO is the monitoring body for compliance with these limits and is assisted by Central Treasury in its day-to-day monitoring activities. Interest rates risks in the banking book are managed using micro and marcro hedging strategies.

Equity price risk is subject to regular monitoring by Group Market Risk, but is not currently significant in relation to the Group's overall risk exposure.

In addition to monitoring VaR in respect of foreign currency, the Group monitors any concentration risk in relation to any individual currency with regard to the translation of foreign currency transactions and monetary assets and liabilities into the functional currency of Group entities, and with regard to the translation of foreign operations into the presentation currency of the Group.

Credit risks
Credit risk is the risk of a financial loss to the Group if a counterparty fails to meet its contractual obligations or the credit quality deteriorates. Credit risk arises principally from the Group's loans and advances to customers and other banks, and investment debt securities. For risk management reporting purposes, the Group considers and consolidates all elements of credit risk exposure (such as individual obligor default risk, country and sector risk).

Management of credit risks
The Group Credit Committee has the responsibility for the oversight of credit risks. A separate Group Credit department, reporting to the Group Credit Committee, is responsible for managing the Group's credit risks, including the following:

- *Issuance of credit policies* in consultation with business units, covering collateral requirements, credit assessment, risk grading and reporting, documentary and legal procedures, and compliance with regulatory and statutory requirements.
- *Establishing the authorization structure* for the approval and renewal of credit facilities. Authorization limits are allocated to business unit Credit Officers. Larger facilities require approval by the Head of Group Credit, the Group Credit Committee or the Board of Directors as appropriate.
- *Reviewing and assessing credit risk:* The Group Credit department assesses all credit exposures in excess of designated limits, before facilities are committed to customers by the business unit concerned. Renewals and reviews of facilities are subject to the same review process.

E. Notes to the consolidated financial statements (continued)

- *Limiting concentrations of exposure* to counterparties, geographies and industries (for loans and advances, financial guarantees and similar exposures), and by issuer, credit rating range, market liquidity and country (for investment securities).
- *Developing and maintaining the Group's risk gradings* to categorize exposures according to the degree of risk of financial loss faced and to focus management on the attendant risks. The risk grading system is used in determining where impairment provisions may be required against specific credit exposures. The current risk grading framework consists of eight grades reflecting varying degrees of risk of default and the availability of collateral or other credit risk mitigation. The responsibility for setting risk grades lies with the final approving executive or committee, as appropriate. Risk grades are subject to regular reviews by the Group Risk department.
- *Reviewing compliance* with agreed exposure limits, including those for selected industries, country risk and product types. Regular reports on the credit quality of local portfolios are provided to the Group Credit department, which may require appropriate corrective action.

The Group Chief Credit Risk officer reports to management and the Group Credit Committee on all credit-related matters. Each business unit is responsible for the quality and performance of its credit portfolio and for monitoring and controlling all credit risks in its portfolio, including those subject to central approval.

Settlement risk
The Group's activities may give rise to risk at the time of settlement of transactions and trades. Settlement risk is the risk of loss due to the failure of an entity to honor its obligations to deliver cash, securities or other assets as contractually agreed.

For certain types of transactions, the Group mitigates this risk by conducting settlements through a settlement/clearing agent to ensure that a trade is settled only when both parties have fulfilled their contractual settlement obligations. Settlement limits are part of the credit approval/limit monitoring process described earlier. Acceptance of settlement risk on free-settlement trades requires transaction-specific or counterparty-specific approval from the Group Risk Committee.

Liquidity risk
Liquidity risk is the risk that the Group will encounter difficulties in meeting obligations associated with its financial liabilities that are settled by delivering cash or another financial asset.

Management of liquidity risk
The ALCO is responsible for the oversight of the implementation of the Group's policy for managing liquidity risk. Central Treasury manages the Group's liquidity position on a day-to-day basis and reviews daily reports covering the liquidity position of both the Group and the operating subsidiaries. A summary report, including any exceptions and remedial actions taken, is submitted regularly to the ALCO.

The Group's approach to managing liquidity is to ensure that it will always have sufficient liquidity to meet its liabilities when they are due, under both normal and stressed conditions, without incurring unacceptable losses or risking damage to the Group's reputation.

E. Notes to the consolidated financial statements (continued)

Central Treasury receives information from other business units regarding the liquidity profile of their financial assets and financial liabilities and details of other projected cash flows arising from future business. Central Treasury maintains a portfolio of short-term liquid assets, largely made up of short-term liquid investment securities, loans and advances to banks and other inter-bank facilities, to ensure that sufficient liquidity is maintained within the Group as a whole. The liquidity requirements of business units and subsidiaries are met through loans from Central Treasury to cover any short-term fluctuations and long-term funding to avoid any liquidity shortfalls.

If a subsidiary is subject to a liquidity limit imposed by its local regulator, then the subsidiary is responsible for managing its overall liquidity within the regulatory limit in coordination with Central Treasury. Central Treasury monitors compliance of all operating subsidiaries with local regulatory limits on a daily basis.

Regular liquidity stress testing is conducted under a variety of scenarios covering both normal and more severe market conditions. The scenarios are developed taking into account Group-specific events (e.g. rating downgrade) and market-related events (e.g. prolonged market illiquidity, reduced fungibility of currencies etc.).

Operational risks

Operational risk is the risk of direct or indirect loss arising from a wide variety of causes associated with the Group's processes, personnel, technology and infrastructure, and from external factors other than credit, market and liquidity risks, such as those arising from legal and regulatory requirements. Operational risks arise from all of the Group's operations.

The Group's objective is to manage operational risk so as to balance the avoidance of financial losses and damage to the Group's reputation with overall cost effectiveness and innovation.

The Group Operational Risk Committee is responsible for the development and implementation of controls to address operational risk. This responsibility is supported by the development of overall Group standards for the management of operational risk in the following areas:

- requirements for appropriate segregation of duties, including the independent authorization of transactions;
- requirements for the reconciliation and monitoring of transactions;
- compliance with regulatory and other legal requirements;
- documentation of controls and procedures;
- requirements for the periodic assessment of operational risks faced, and the adequacy of controls and procedures to address the risks identified;
- requirements for the reporting of operational losses and proposed remedial action;
- development of contingency plans;
- training and processional development;
- ethical and business standards; and
- risk mitigation, including insurance where this is cost effective.

E. Notes to the consolidated financial statements (continued)

IV. Explanations of the methods used for identifying default risks and determining the need for value adjustments

Property valuations for mortgage loans are regularly updated. The periodicity of mortgage loan reviews is based on its risk grading. Loans secured by financial collateral are monitored by the Group Credit department on a daily basis. For commercial loans and other unsecured loans, information on the financial situation of the borrowers is regularly obtained and analyzed by the Group Credit department, but at least on a yearly basis.

The methods for identifying and measuring value adjustments are further described in section: "Financial instruments - Amounts due from banks, amounts due from customers and mortgage loans".

V. Explanations of the valuation of collateral, in particular key criteria for the calculation of the current market value and the lending value

The Group has set out the methods, procedures and responsibilities for the valuation of collaterals for loans in specific directives and procedures. The valuation of mortgage collateral is based on recognized valuation methods including hedonic models, discounted cash flow models and expert appraisals. The models used and critical valuation parameters are regularly reviewed.

Loan-to-value ratios for mortgage lending are based on the marketability of the property including additional parameters like location or type of property (residential, commercial etc.). For loans secured by financial assets, loan-to-value ratios are based on the risks of the collateral (volatility, liquidity etc.). Financial assets are valued at the current market price or at a price determined by a valuation model.

VI. Explanations of the Group's business policy regarding the use of derivative financial instruments, including explanations relating to the use of hedge accounting

Derivative financial instruments
Derivative financial instruments are used for trading and risk management purposes. Derivative financial instruments held for trading are carried at fair value. For all positions traded on a price-efficient and liquid market, fair value is determined by the market value. In the absence of such a market, fair value is established using valuation models. Gains and losses (realized or unrealized) on derivatives used for trading purposes are recognized in the income statement under "result from trading activities and the fair value option". Derivatives used to hedge interest rate risk in the banking book are valued according to the accrual method.

Hedge accounting
The Group uses interest rate swaps to hedge interest rate risk in the banking book arising from the asset and liability duration mismatch in different time buckets (macro hedging). It also uses interest rate swaps to hedge the interest rate risks arising from certain assets or liabilities positions (micro hedging). Only derivative financial instruments concluded with external counterparties qualify as hedging instruments.

E. Notes to the consolidated financial statements (continued)

The results from the hedging transactions are recognized in the same income statement item as the corresponding results form the hedged item. For macro hedges of interest rate risks, the net result is reported in the item "Interest and discount income." Changes in the fair value of hedging instruments are recognized in the "Compensation account" under "Other assets" or "Other liabilities". For hedging transactions valued in accordance with the accrual method, the accrued interest is reclassified from accruals and deferrals to the "Compensation account".

At the inception of the hedge relationship, the Group documents its long-term risk management and hedging strategy. The documentation specifically designates the hedging instrument, the hedged item and the methods used to measure hedge effectiveness. The Group performs regular effectiveness testing but at least at each balance sheet date.

In order for a hedge relationship to be deemed highly effective there must be an economic connection between the hedging instrument and the hedged item. Changes in the fair value of the hedging instrument and the hedged item with respect to the hedged risk have to offset each other. The hedging relationship has to be highly effective, both prospectively and retrospectively. The results of the effectiveness test have to be in a range between 80-125% for the hedge relationship to be deemed highly effective.

When the change in fair value of the hedging instrument exceeds the change in fair value of the hedged item which is due to the hedged risk, the ineffective portion is recognized through "Result from trading activities and the fair value option".

VII. Explanation of material events occurring after the balance sheet date

No event occurred after the balance sheet date that might have a significant influence on the Group's consolidated financial statements.

VIII. Reasons that led to the premature resignation of the auditor

KPMG has been elected as statutory auditor at the last General Assembly of Shareholders. The statutory auditor did not resign prematurely from its function.

E. Notes to the financial statements (continued)

CHF million

IX. Information on the balance sheet

1. Breakdown of securities financing transactions (assets and liabilities)

	31.12.2015	31.12.2014
Book value of receivables from cash collateral delivered in connection with securities borrowing and reverse repurchase transactions	323	187
Book value of obligations from cash collateral received in connection with securities lending and repurchase transactions	516	564
Book value of securities lent in connection with securities lending or delivered as collateral in connection with securities borrowing as well as securities in own portfolio transferred in connection with repurchase agreements	568	620
- of which with unrestricted right to resell or pledge	*568*	*620*
Fair value of securities received and serving as collateral in connection with securities lending or securities borrowed in connection with securities borrowing as well as securities received in connection with reverse repurchase agreements with an unrestricted right to resell or repledge	355	206
- of which repledged securities		
- of which resold securities		

E. Notes to the consolidated financial statements (continued)

CHF million

2. Presentation of collateral for loans / receivables and off-balance-sheet transactions, as well as impaired loans / receivables

Loans (before netting with value adjustments)		Type of collateral: Secured by mortgage	Type of collateral: Other collateral	Type of collateral: Unsecured	Total
Amounts due from customers		586	733	1'329	2'648
Mortgage loans		11'748			11'748
- Residential property		*9'400*			*9'400*
- Office and business premises		*818*			*818*
- Commercial and industrial premises		*1'179*			*1'179*
- Other		*351*			*351*
Total loans (before netting with value adjustments)	**31.12.2015**	**12'334**	**733**	**1'329**	**14'396**
	31.12.2014	*11'244*	*665*	*1'224*	*13'133*
Total loans (after netting with value adjustments)	**31.12.2015**	**12'264**	**733**	**1'310**	**14'307**
	31.12.2014	*11'189*	*665*	*1'205*	*13'059*
Off-balance-sheet					
Contingent liabilities		8	69	308	385
Irrevocable commitments		123	14	547	684
Obligation to pay up shares and make further contributions					
Credit commitments				10	10
Total off-balance-sheet	**31.12.2015**	**131**	**83**	**865**	**1'079**
	31.12.2014	*129*	*82*	*855*	*1'066*

Impaired loans / receivables		Gross debt amount	Estimated liquidation value of collateral	Net debt amount	Individual value adjustments
Balance as of	**31.12.2015**	**255**	**134**	**121**	**89**
	31.12.2014	*225*	*119*	*106*	*74*

The increase in impaired loans is predominantly due to the adverse developement of a group of related counterparties.

E. Notes to the consolidated financial statements (continued)

CHF million

3. Breakdown of trading portfolios and other financial instruments at fair value (assets and liabilities)

	31.12.2015	31.12.2014
Assets		
Trading portfolios assets		
Debt securities, money market securities / transactions	266	199
- of which, listed	*212*	*189*
Equity securities	159	54
Precious metals and commodities	106	109
Other trading portfolio assets		
Total trading portfolio assets	**531**	**362**
Other financial instruments at fair value		
Debt securities	89	90
Structured products		
Other	33	15
Total other financial instruments at fair value	**122**	**105**
Total assets	**653**	**467**
- of which, determined using a valuation model		
- of which, securities eligible for repo transactions in accordance with liquidity requirements	*180*	*173*
Liabilities		
Trading portfolio liabilities		
Debt securities, money market securities / transactions		
- of which, listed		
Equity securities		
Precious metals and commodities		
Other trading portfolio liabilities		
Total trading portfolio liabilities		
Other financial instruments at fair value		
Debt securities		
Structured products	118	107
Other		
Total other financial instruments at fair value	**118**	**107**
Total liabilities	**118**	**107**
- of which, determined using a valuation model	*118*	*107*

E. Notes to the consolidated financial statements (continued)

CHF million

4. Presentation of derivative financial instruments (assets and liabilities)

	Trading instruments			Hedging instruments		
	Positive replacement values	**Negative replacement values**	**Contract volume**	**Positive replacement values**	**Negative replacement values**	**Contract volume**
Interest rate instruments						
- Forward contracts incl. FRAs						
- Swaps	21	20	890	56	87	3'955
- Futures						
- Options (OTC)						
- Options (exchange-traded)						
Foreign exchange / precious metals						
- Forward contracts	43	40	6'391			
- Combined interest rate / currency swaps	112	66	12'175			
- Futures						
- Options (OTC)	12	11	312			
- Options (exchange-traded)						
Equity securities / indices						
- Forward contracts						
- Swaps						
- Futures			71			
- Options (OTC)	33	31	498			
- Options (exchange-traded)			56			
Credit derivatives						
- Credit default swaps						
- Total return swaps						
- First-to-default swaps						
- Other credit derivatives						
Other						
- Forward contracts						
- Swaps						
- Futures						
- Options (OTC)						
- Options (exchange-traded)						
Total before netting agreements 31.12.2015	**221**	**168**	**20'393**	**56**	**87**	**3'955**
- of which, determined using a valuation model	*66*	*62*		*56*	*87*	
31.12.2014	*97*	*135*	*20'679*	*51*	*92*	*4'304*
- of which, determined using a valuation model	*58*	*55*		*51*	*92*	

E. Notes to the consolidated financial statements (continued)

CHF million

4. Presentation of derivative financial instruments (assets and liabilities) (continued)

		Positive replacement values (cumulative)	Negative replacement values (cumulative)
Total after netting agreements	**31.12.2015**	**198**	**182**
	31.12.2014	*148*	*227*

Breakdown by counterparty		Central clearing houses	Banks and securities dealers	Other customers	Total
Positive replacement values (after netting agreements)	31.12.2015	44	41	113	**198**
	31.12.2014	*19*	*31*	*98*	***148***

E. Notes to the consolidated financial statements (continued)

CHF million

5. Breakdown of financial investments

Breakdown of financial investments	Book value		Fair value	
	31.12.2015	**31.12.2014**	**31.12.2015**	**31.12.2014**
Debt instruments	1'849	1'824	1'892	1'910
- *of which, intended to be held to maturity*	*1'826*	*1'797*	*1'868*	*1'883*
- *of which, not intended to be held to maturity (available for sale)*	*23*	*26*	*24*	*27*
Equity securities	25	27	52	55
- *of which, qualified participations*	*8*	*7*	*8*	*7*
Precious metals				
Real estate	14	10	16	12
Total	**1'888**	**1'861**	**1'960**	**1'977**
- *of which, securities eligible for repo transactions in accordance with liquidity requirements*	*1'789*	*1'767*	*1'795*	*1'782*

Breakdown of counterparties by rating

	31.12.2015	**31.12.2014**
- AAA to AA-	925	912
- A+ to A-	832	821
- BBB+ to BBB-	74	55
- BB+ to B-		
- Lower than B-		
- Not rated	18	36
Total debt instruments	**1'849**	**1'824**

Rating for debt instruments according to S&P

E. Notes to the consolidated financial statements (continued)

CHF million

6. Presentation of non-consolidated participations

	Aquisition cost	Accumulated value adjustments and changes in book value[2]	Book value 31.12.2014	2015 Reclassifications	2015 Additions	2015 Disposals	2015 Value adjustments	2015 Changes in book value[3]	31.12.2015 Book value	31.12.2015 Market value
Participations valued using the equity method										
- with market value										
- without market value	3	2	5					2	7	
Other participations										
- with market value										
- without market value										
Total non-consolidated participations	**3**	**2**	**5**					**2**	**7**	

[2] Valuation using the equity method

[3] In the case of participations valued using the equity method / depreciation reversals

E. Notes to the consolidated financial statements (continued)

CHF million

7. Disclosure of companies in which the Group holds a permanent direct or indirect significant participation

Company name and domicile	Business activity	Company capital		Share of		Held	
		Currency	Amount	Capital in %	Votes in %	directly	indirectly
Consolidated subsidiaries							
Swiss Bank Ltd, Nassau	Bank	USD	10	75%	75%	75%	
Swiss Asset Management Ltd, Jersey	Asset management	GBP	0.5	100%	100%	100%	
Interests in associates (equity method)							
BPO AG, Zürich	Service company	CHF	1	30%	30%	30%	
Non-consolidated participations							
Swiss Fiduciary Services SA, Geneva[4]	Dormant company	CHF	0.1	100%	100%	100%	

There are no outstanding commitments or options to purchase or sale participating interests.

[4] Swiss Fiduciary Services SA, Geneva is a dormant company with a balance-sheet total of TCHF 250 and a negative equity of TCHF 50 as of 31 December 2015. Swiss Bank has a subordinated loan of TCHF 100 against its subsidiary. The Group's intention is to put this company into liquidation.

E. Notes to the consolidated financial statements (continued)

CHF million

8. Presentation of tangible fixed assets

	Aquisition cost	Accumulated depreciation	Book value 31.12.2014	2015 Reclassifications	Additions	Disposals	Depreciation	Reversals	Book value 31.12.2015
Bank buildings	120	-35	85		10	-10	-3		82
Other real estate	80	-26	54				-2		52
Proprietary or separately acquired software	55	-35	20		6		-9		17
Other tangible fixed assets	77	-43	34		4		-5		33
Tangible assets aquired under financial leases:	40	-10	30				-2		28
- of which, bank buildings	*40*	*-10*	*30*				*-2*		*28*
- of which, other real estate									
- of which, other tangible fixed assets									
Total tangible fixed assets	**372**	**-149**	**223**		**20**	**-10**	**-21**		**212**

Operating leases		**within 1 year**	**from 1 to 3 years**	**from 3 to 5 years**	**> 5 years**	**Total***
Future lease payments	31.12.2015	10	10	5	3	**28**
	31.12.2014	*11*	*11*	*4*	*4*	***30***

** of which, commitments which can be terminated within one year: CHF 12 million (2014: CHF 10 million)*

9. Presentation of intangible assets

	Cost value	Accumulated amortisation	Book value 31.12.2014	2015 Additions	Disposals	Amortisation	Book value 31.12.2015
Goodwill	50	-5	45			-5	40
Patents							
Licenses							
Other intangible assets							
Total intangible assets	**50**	**-5**	**45**			**-5**	**40**

E. Notes to the consolidated financial statements (continued)

CHF million

10. Breakdown of other assets and other liabilities

	Other assets		Other liabilities	
	31.12.2015	**31.12.2014**	**31.12.2015**	**31.12.2014**
Compensation account	8	7		
Deferred income taxes recognised as assets	3	4		
Amount recognized as assets in respect of employer contribution reserves	4	4		
Amount recognized as assets relating to other pension schemes				
Indirect taxes	3	2	15	17
Neative goodwill				
Others	6	1	30	33
Total	**24**	**18**	**45**	**50**

11. Disclosure of assets pledged or assigned to secure own commitments and of assets under reservation of ownership

	31.12.2015		31.12.2014	
	Book value	**Effective commit-ments**	**Book value**	**Effective commit-ments**
Assets pledged or assigned as collateral for own liabilties				
Assets pledged or assigned to SNB	100		80	
Mortgage pledged or assigned to the central mortgage loan institution	4'950	3'713	4'730	3'548
Other	97	92	110	100
Total assets pledged or assigned as collateral for own liabilities	**5'147**	**3'805**	**4'920**	**3'648**
Total assets under reservation of ownership				

E. Notes to the consolidated financial statements (continued)

CHF million

12. Disclosure of liabilities relating to own pension schemes, and number and nature of equity instruments of the Group held by own pension schemes

	31.12.2015	31.12.2014
Amounts due in respect of customer deposits	32	21
Cash bonds	4	3
Total payables to own employees and own bonds held	**36**	**24**

The Group's employee's pension fund holds 2'530 Swiss Bank shares for an amount of CHF 0.4 million (2014: 2'600 for CHF 0.5 million).

E. Notes to the consolidated financial statements (continued)

CHF million

13. Disclosures on the economic situation of own pensions schemes

Employer contribution reserves (ECR)

	31.12.2015			31.12.2014	Influence of the ECR on personnel expenses	
	Nominal value	Waiver of use	Net amount	Net amount	2015	2014
- Swiss Bank Group employees pension fund	4		4	4		
- Patronal Fund						
Total	**4**		**4**	**4**		

The employer contribution reserves correspond to the nominal amount of the reserve (undiscounted). Interest income received on the employer contribution reserve is recognized through "Result from interest operations".

Presentation of the economic benefit / obligation and the pension expenses

	Overfunding / (underfunding)	Economic interests of the bank / financial group		Change in economic interest (economic benefit / obligation) versus previous year	Contributions paid for the reporting period	Pension expenses in personnel expenses	
	31.12.2015	31.12.2015	31.12.2014		2015	31.12.2015	31.12.2014
Pension plans with overfunding							
- Swiss Bank Group employees pension fund	11				7	7	8
- Patronal fund	6				0.5	0.5	0.5
Total	**17**				**7.5**	**7.5**	**8.5**

The overfunding in a pension plan will be used for the benefit of the employees. As a result, there will be no economic benefit to the Group of an overfunding.

Switzerland

Swiss Bank Group employees in Switzerland are members of the Swiss Bank Group Employees Pension Fund. Its purpose is to insure its members against the economic consequences of retirement, disability and death by guaranteeing benefits in accordance with the terms of the pension fund regulations. In addition, senior executives are affilitated to the Patronal Fund supplementing the benefits they receive from the base pension fund. The overfunding or underfunding in a pension fund is based on its unaudited accounts as of 31 December 2015. The coverage rate in the Swiss Bank Employees Pension Plan at that date was 104% (2014: 99%). The coverage rate in the Patronal fund at the same date was 120% (2015: 117%).

Other locations

The employees of the Nassau subisdiary have voluntary membership in a specific pension plan. There is no economic benefit / obligation with respect to this pension plan.

E. Notes to the consolidated financial statements (continued)

CHF million

14. Presentation of issued structured products

Underlying risks of the embedded derivative

		Book value					
		Valued as a whole		Valued seperately		Total	
		Booked in trading portfolio	Booked in other financial instruments at fair value	Value of the host instrument	Value of the host derivative	31.12.2015	31.12.2014
Interest rate instruments	with own debenture component ("oDC")						
	without oDC						
Equity securities	with oDC		80			80	74
	without oDC						
Foreign currencies	with oDC		38			38	33
	without oDC						
Commodities / precious metals	with oDC						
	without oDC						
Total			**118**			**118**	**107**

E. Notes to the consolidated financial statements (continued)

CHF million

15. Presentation of bonds outstanding and mandatory convertible bonds

Presentation of cash bonds by maturity

Rates	Maturity: within one year	>1-≤2 years	>2-≤3 years	>3-≤4 years	>4-≤5 years	>5 years	Total 31.12.2015	Total 31.12.2014
up to 2%	28	19	12	4	4	6	73	131
2%-3%	19	13	10	5	3	2	52	93
3%-3.5%	8	6	4	3			21	38
Total outstanding bonds	**55**	**38**	**26**	**12**	**7**	**8**	**146**	**262**

Bonds issues and central mortgage institution loans

	Issues	Year of issues	Nominal value	Maturity	Group held	Interest rate in %	Amount outstanding 31.12.2015	Amount outstanding 31.12.2014
	Bond 1	2010	125	30.06.2020	10	2.05	115	111
	Bond 2	2011	100	31.03.2021	5	2.12	95	84
Total bonds							**210**	**195**

Total central mortgage institution loans[5]							**4'642**	**4'475**
Total bonds and central mortgage institution loans							**4'852**	**4'670**
- of which non-subordinated							*4'852*	*4'670*
- of which subordinated without PONV clause								
- Subordinated with PONV clause								
- of which with early termination clause								

Overview of maturity bonds outstanding

Issuer		Maturity: within one year	>1-≤2 years	>2-≤3 years	>3-≤4 years	>4-≤5 years	>5 years	Total 31.12.2015	Total 31.12.2014
Swiss Bank	Bonds						210	210	195
Swiss Bank	Mortgage loans institution	85	112	205	344	550	3'346	4'642	4'475
Total		**85**	**112**	**205**	**344**	**550**	**3'556**	**4'852**	**4'670**

[5] The average interest rate is 2,3%.

E. Notes to the consolidated financial statements (continued)

CHF million

16. Presentation of value adjustments and provisions, reserves for general banking risks, and changes therein during the current year

	Balance at 31.12.2014	Use in conformity with designated purpose	Reclassi-fications	Currency differences	Past due interest, recoveries	New creations charged to income	Releases to income	Balance at 31.12.2015
Provisions for deferred taxes	106							106
Provisions for pension benefit obligations								
Provisions for default risks	15					5		20
Provisions for other business risks								
Provisions for restructuring								
Other provisions	6					2		8
Total provisions	**127**					**7**		**134**
Reserves for general banking risks	**317**							**317**
Value adjustments for default and country risks	**74**					**15**		**89**
- of which, value adjustments for default risks in respect of impaired loans / receivables	*69*					*13*		*82*
- of which, value adjustments for latent risks	*5*					*2*		*7*

Other provisions include provisions for several litigations to which the Group is exposed. Reserves for general banking risks are not taxed.

E. Notes to the consolidated financial statements (continued)

17. Number and value of shares or options on equity securities held by all executives and directors and by employees, and disclosures on any employee participation scheme

	Shares				Options			
	Number		Value CHF mio.		Number		Value CHF mio.	
	31.12.2015	31.12.2014	31.12. 2015	31.12. 2014	31.12. 2015	31.12. 2014	31.12. 2015	31.12. 2014
Members of the Board of Directors	380	370	0.1	0.1				
Members of Executive management	2'234	1'888	0.4	0.4				
Employees	6'590	8'700	1.1	1.6				
Total	**9'204**	**10'958**	**1.6**	**2.1**				

The Group operates a long-term incentive plan under which eligible employees are awarded restricted share units. Each restricted share unit represents a non transferable right to receive one share of Swiss Bank Group following the vesting date. The restricted share units have been valued at the price of CHF 160 per unit (2014: CHF 182). For the Board of Directors and Executive management members rights to restricted share units vest after 5 years. Employees rights vest after 3 years.

The number and value of restricted share units granted to the Board of Directors, Executive management members and employees during the year are dislcosed in the table above. The total cost for the year of the employee share participation plan amounts to CHF 1.7 million (2014: CHF 2.0 million).

E. Notes to the consolidated financial statements (continued)

CHF million

18. Disclosure of amounts due from / to related parties

	Amounts due from		Amounts due to	
	31.12.2015	**31.12.2014**	**31.12.2015**	**31.12.2014**
Holders of qualified participations				
Linked companies	2.0	2.0	0.2	0.3
Transactions with members of governing bodies	0.2	0.1	0.2	0.2
Other related parties				

All balance sheet and off-balance-sheet transactions have been granted at arm's length.

19. Disclosure of own shares

As at 31 December 2015, the Group holds 15'459 ordinary own shares (2014: 45'000 ordinary shares). The Group has disposed of 35'650 and acquired 6'109 own shares in 2015 for an average transaction price of CHF 268 and CHF 253 respectively. The Group has realized a gain of CHF 4 million on disposal of own shares, which was recognised through capital reserves. Transactions in own shares have been executed at fair value. Own shares are not held for trading purposes. There are no contingent liabilities associated with own shares purchased or sold.

Own shares are principally held for the purpose of managing the Group's long-term incentive plan. As of 31 December 2015, 13'750 shares were held as part of the employees share participation plan (2014: 32'350).

No group companies or related party hold equity instruments of the Group.

Transactions with shareholders in their capacity as shareholders to transactions

No specific transaction has been concluded with shareholders in 2015 with a settlement other than in cash or outside of usual market conditions.

E. Notes to the consolidated financial statements (continued)

CHF million

20. Presentation of the maturity structure of financial instruments

		At sight	Cancellable	Due					Total
				within 3 months	*within 3 to 12 months*	*within 12 months to 5 years*	*after 5 years*	*no maturity*	
Assets / financial instruments									
Liquid assets		2'951							2'951
Amounts due from banks		315		154	9	23			501
Amounts due from securities financing transactions				323					323
Amounts due from customers		80	905	777	166	389	302		2'619
Mortgage loans		202	214	1'910	1'123	5'102	3'137		11'688
Trading portfolio assets		531							531
Positive replacement values of derivative financial instruments		198							198
Other financial instruments at fair value		122							122
Financial investments		44		143	162	798	727	14	1'888
Total	**31.12.2015**	**4'443**	**1'119**	**3'307**	**1'460**	**6'312**	**4'166**	**14**	**20'821**
	31.12.2014	*4'086*	*1'111*	*2'832*	*1'605*	*6'740*	*3'232*	*10*	*19'616*
Debt captial / financial instruments									
Amounts due to banks		434		672	50	100			1'256
Liabilities from securities financing transactions				516					516
Amonts due in respect of customer deposits		6'368	5'747	355	56	140	30		12'696
Trading portfolio liabilities									
Negative replacement values of derivative financial instruments		182							182
Liabilities from other financial instruments at fair value		118							118
Cash bonds				20	47	72	7		146
Bond issues and central mortgage institution loans				239	481	1'584	2'548		4'852
Total	**31.12.2015**	**7'102**	**5'747**	**1'802**	**634**	**1'896**	**2'585**		**19'766**
	31.12.2014	*7'195*	*6'426*	*1'364*	*667*	*1'523*	*1'457*		*18'632*

E. Notes to the consolidated financial statements (continued)

CHF million

21. Presentation of assets and liabilities by domestic and foreign origin in accordance with the domicile principle

	31.12.2015		31.12.2014	
ASSETS	**Domestic**	**Foreign**	**Domestic**	**Foreign**
Liquid assets	2'945	6	3'058	6
Amounts due from banks	219	282	506	324
Amounts due from securities financing transactions	323		187	
Amounts due from customers	2'205	414	1'929	383
Mortgage loans	11'688		10'747	
Trading portfolio assets	370	161	272	90
Positive replacement values of derivative financial instruments	140	58	107	41
Other financial instruments at fair value	105	17	87	18
Financial investments	1'605	283	1'561	300
Accrued income and prepaid expenses	89	29	90	29
Non-consolidated participations	5	2	3	2
Tangible fixed assets	212		223	
Intangible assets	40		45	
Other assets	14	10	10	8
Total assets	**19'960**	**1'262**	**18'825**	**1'201**
LIABILITIES				
Amounts due to banks	1'006	250	781	158
Liabilities from securities financing transactions	516		564	
Amonts due in respect of customer deposits	11'985	711	11'208	655
Trading portfolio liabilities				
Negative replacement values of derivative financial instruments	132	50	168	59
Liabilities from other financial instruments at fair value	13	105	16	91
Cash bonds	146		262	
Bond issues and central mortgage institution loans	4'620	232	4'350	320
Accrued expenses and deferred income	80	55	81	58
Other liabilities	29	16	34	16
Provisions	88	46	83	44
Reserves for general banking risks	317		317	
Bank's capital	50		50	
Capital reserve	170		165	
Retained earnings reserves	418	24	348	22
Currency translation reserves	-1		-2	
Own shares	-3		-7	
Minority interests in equity		31		30
Consolidated profit	133	3	152	3
Total liabilities	**19'699**	**1'523**	**18'570**	**1'456**

E. Notes to the consolidated financial statements (continued)

CHF million

22. Breakdown of total assets by country or group of countries (domicile principle)

	31.12.2015		31.12.2014	
ASSETS	**absolute**	**%**	**absolute**	**%**
Switzerland	19'960	94.1%	18'825	94.0%
Rest of Europe	662	3.1%	581	2.9%
North America	318	1.5%	320	1.6%
South America	106	0.5%	180	0.9%
Africa	87	0.4%	60	0.3%
Asia	46	0.2%	40	0.2%
Australia / Oceania	43	0.2%	20	0.1%
Total assets	**21'222**	**100.0%**	**20'026**	**100.0%**

23. Breakdown of total assets by credit rating of country groups (risk domicile view)

		Net foreign exposure			
Internal rating system	S&P	31.12.2015		31.12.2014	
		absolute	**%**	**absolute**	**%**
1	AAA	352	43.8%	289	36.9%
2	AA+ to AA-	259	32.3%	312	39.8%
3	A+ to A-	97	12.1%	99	12.6%
4	BBB+ to BBB-	83	10.3%	60	7.7%
5	BB+ to B-	12	1.5%	23	3.0%
6	CCC and below				
Total		**803**	**100.0%**	**783**	**100.0%**

The Group is using an internal rating system to manage country risks. For the purpose of this disclosure, the Group's net foreign exposure has been presented according to the Group's internal rating and corresponding sovereign foreign currency long-term rating from Standard and Poor's (S&P).

E. Notes to the consolidated financial statements (continued)

CHF million

24. Presentation of assets and liabilities broken down by the most significant currencies for the Group

	31.12.2015				
ASSETS	**CHF**	**EUR**	**USD**	**GBP**	**Others**
Liquid assets	2'898	39	9	3	2
Amounts due from banks	128	204	139	12	18
Amounts due from securities financing transactions		149	98	76	
Amounts due from customers	1'875	367	220	157	
Mortgage loans	11'688				
Trading portfolio assets	247	160	56	36	32
Positive replacement values of derivative financial instruments	84	62	14	16	22
Other financial instruments at fair value	102	12		8	
Financial investments	1'366	232	176	114	
Accrued income and prepaid expenses	102	3	4	2	7
Non-consolidated participations	7				
Tangible fixed assets	179		26	7	
Intangible assets	40				
Other assets	17	3	1	2	1
Total assets shown in balance sheet	**18'733**	**1'231**	**743**	**433**	**82**
Delivery entitlements from spot exchange, forward forex and forex options transactions	13'218	5'231	5'201	530	168
Total assets	**31'951**	**6'462**	**5'944**	**963**	**250**

KPMG

E. Notes to the consolidated financial statements (continued)

CHF million

24. Presentation of assets and liabilities broken down by the most significant currencies for the Group (continued)

	31.12.2015				
LIABILITIES	**CHF**	**EUR**	**USD**	**GBP**	**Others**
Amounts due to banks	301	522	356	31	46
Liabilities from securities financing transactions		238	157	121	
Amounts due in respect of customer deposits	11'273	468	395	560	
Trading portfolio liabilities					
Negative replacement values of derivative financial instruments	77	57	13	15	20
Liabilities from other financial instruments at fair value	49	26	18	21	4
Cash bonds	146				
Bond issues and central mortgage institution loans	4'011	345	496		
Accrued expenses and deferred income	117	3	5	2	8
Other liabilities	32	6	2	4	1
Provisions	96	19	11	8	
Reserves for general banking risks	317				
Bank's capital	50				
Capital reserve	170				
Retained earnings reserve	442				
Currency translation reserves	-1				
Own shares	-3				
Minority interests in equity	31				
Consolidated profit	136				
Total liabilities shown in the balance sheet	**17'244**	**1'684**	**1'453**	**762**	**79**
Delivery obligations from spot exchange, forward forex and forex options transactions	15'336	4'568	4'000	269	175
Total liabilities	**32'580**	**6'252**	**5'453**	**1'031**	**254**
Net position per currency	**- 629**	**210**	**491**	**- 68**	**- 4**

E. Notes to the consolidated financial statements (continued)

CHF million

X. Information concerning off-balance-sheet transactions

25. Breakdown of contingent liabilities and contingent assets

Contingent liabilities	31.12.2015	31.12.2014
Guarantees to secure credits and similar	295	321
Performance guarantees and similar		
Irrevocable commitments arising from documentary letters of credit	90	67
Other contingent liabilities		
Total contingent liabilities	**385**	**388**
Contingent assets		
Contingent assets arising from tax losses carried forward		
Other contingent assets	2	2
Total contingent assets	**2**	**2**

26. Breakdown of credit commitments

	31.12.2015	31.12.2014
Commitments arising from deferred payments		
Commitments arising from acceptances		
Other credit commitments	10	15
Total credit commitments	**10**	**15**

27. Breakdown of fiduciary transactions

	31.12.2015	31.12.2014
Fiduciary deposits with third-party companies	102	135
Fiduciary investments with linked companies		
Fiduciary loans		
Fiduciary transactions arising from securities lending and borrowing, which the bank conducts in its own name for the account of customers		
Other fiduciary financial transactions		
Total fiduciary transactions	**102**	**135**

E. Notes to the consolidated financial statements (continued)

CHF million

28. Breakdown of managed assets and presentation of their development

Breakdown of managed assets	31.12.2015	31.12.2014
Assets in collective investment schemes managed by the Group	10'058	9'482
Assets under discretionary asset management agreements	5'102	5'080
Other managed assets	26'030	24'688
Total managed assets (including double counting)	**41'190**	**39'250**
- of which, double counting	*4'127*	*3'872*

Managed assets comprise all assets for which investment advisory and/or discretionary portfolio management services are provided. Assets that are held exclusively for custody and transaction settlement processes (custody assets) are not included in the table above.

Assets under discretionary asset management agreements comprise assets subject to a discretionary asset management agreement signed with the client. Other assets are classified as "Other managed assets".

Presentation of the development of managed assets	31.12.2015	31.12.2014
Total managed assets (including double counting) at beginning	39'250	38'456
+/- net new money inflow or net new money outflow	160	20
+/- price gains / losses, interest, dividends and currency gains / losses	1'986	970
+/- other effects	-206	-196
Total managed assets (including double counting) at end	**41'190**	**39'250**

Net new money inflows or outflows relate to clients acquired during the year, clients that left the bank as well as cash deposits and withdrawals of existing clients. Other effects include the impact of interests, commission and fees charged to managed assets. It also includes the impact of client assets sold or acquired by the Group.

E. Notes to the consolidated financial statements (continued)

CHF million

XI. Information on the income statement

29. Breakdown of the result from trading activities and the fair value option

Breakdown by business area	**2015**	**2014**
Trading results for own account	20	19
Trading for the account of customers	60	58
Total trading results	**80**	**77**

Breakdown by underlying risk and based on the use of the fair value option	**2015**	**2014**
Results from trading activities from:		
- Interest rate instruments (incl. funds)	17	12
- Equity securities (incl. funds)	49	51
- Foreign currencies	9	4
- Commodities / precious metals	5	10
Total result from trading activities	**80**	**77**
of which, from fair value option	*4*	*3*
- of which, from fair value option on assets	*9*	*7*
- of which, from fair value option on liabilities	*-5*	*-4*

30. Disclosure of material refinancing income in the item "Interest and discount income" as well as material negative interest

Refinancing income related to "Interest and discount income"

During the reporting year, the cost of refinancing of the trading portfolio amounted to CHF 2.5 milion (2014: CHF 3 million).

Negative interest

Asset related negative interest is debited to "Interest and discount income". Liability related negative interest is put in reduction of "Interest expenses".

	2015	**2014**
Asset related negative interest	8	
Liability related negative interest	2	

E. Notes to the consolidated financial statements (continued)

CHF million

31. Breakdown of personnel expenses

	2015	2014
Salaries (meeting attendance fees and compensation to members of the bank's governing bodies, salaries and benefits)	177	169
- of which, expenses relating to share-based compensation and alternative forms of variable compensation	*26*	*25*
Social insurance benefits	16	15
Changes in book value for economic benefits and obligations arising from pension schemes		
Other personnel expenses	43	41
Total personnel expenses	**236**	**225**

32. Breakdown of general and administrative expenses

	2015	2014
Office space expenses	16	16
Expenses for information technology and communications technology	25	25
Expenses for vehicles, equipment, furniture and other fixtures, as well as operating lease expenses	44	44
Fees of audit firm(s) (Art. 961a no. 2 CO)	3	3
- of which, for financial and regulatory audits	*2*	*2*
- of which, for other services	*1*	*1*
Other operating expenses	36	35
- of which, compensation for any cantonal guarantee		
Total general and administrative expenses	**124**	**123**

E. Notes to the consolidated financial statements (continued)

CHF million

33. Explanations regarding material losses, extraordinary income and expenses, as well as material releases of hidden reserves, reserves for general banking risks, and value adjustments and provisions no longer required

	2015	2014
Profit realized on the disposal of fixed tangible assets	19	9
Total extraordinary income	**19**	**9**
Losses realized from the sale of tangible fixed assets		-6
Total extraordinary expenses		**-6**
Allocation to reserves for general banking risks		
Withdrawals from the reserves for general banking risks		
Total change in reserves for general banking risks		

The extraordinary income of CHF 19 million results from the disposal of a Bank's building for a total amount of CHF 29 million.

34. Disclosure of and reasons for revaluations of participations and tangible fixed assets up to acquisition cost at maximum

Participations or tangible fixed assets have not been revalued.

E. Notes to the consolidated financial statements (continued)

CHF million

35. Presentation of the operating result broken down according to domestic and foreign origin, according to the principle of permanent establishment

	2015		2014	
	Domestic	**Foreign**	**Domestic**	**Foreign**
Interest and discount income	335	2	368	3
Interest and dividend income from trading portfolios				
Interest and dividend income from financial investments	33	1	34	1
Interest expense	-111	-2	-123	-3
Gross result from interest operations	**257**	**1**	**279**	**1**
Changes in value adjustments for default risks and losses from interest operations	-20			
Subtotal net result of interest operations	**237**	**1**	**279**	**1**
Commission income from securities trading and investment activities	135	8	135	6
Commission income from lending activities	27		30	
Commission income from other services	44	3	38	2
Commission expense	-36	-4	-35	-4
Subtotal result from commissions business and services	**170**	**7**	**168**	**4**
Result from trading activities and the fair value option	**68**	**12**	**65**	**12**
Result from the disposal of financial investments	4		5	1
Income from participations	2		2	
- of which, participations recognised using the equity method	*2*		*2*	
- of which, from other non-consolidated participation				
Result from real estate	35		28	
Other ordinary income	10	2	7	1
Other ordinary expenses	-4		-3	
Subtotal other result from ordinary activities	**47**	**2**	**39**	**2**
Personnel expenses	-234	-2	-223	-2
General and administrative expenses	-121	-3	-120	-3
Subtotal operating expenses	**-355**	**-5**	**-343**	**-5**
Value adjustments on participations and depreciation and amortisation of tangible fixed and intangibles assets	-26		-18	
Changes to provisions and other value adjustments, and losses	-2		-2	
Operating result	**139**	**17**	**188**	**14**

E. Notes to the consolidated financial statements (continued)

36. Presentation of current taxes, deferred taxes, and disclosure of tax rate

(in CHF million)	2015	2014
Current tax expenses	-39	-50
Deferred tax expenses		
Total tax expenses	**-39**	**-50**
Weighted average tax rate	22.3%	24.4%

As at 31 December 2015, there were no losses carried forward (2014: none).

37. Disclosures and explanations of the earnings per share in the case of listed banks

Number of shares (units registered)	31.12.2015	31.12.2014
Time weighted number of outstanding shares undiluted	5'000'000	5'000'000
Number of potential shares from options or conversion rights		
Time weighted number or oustanding shares diluted	5'000'000	5'000'000

Earnings per share (in CHF)	31.12.2015	31.12.2014
Undiluted earning per share	27.2	31.0
Diluted earning per share	27.2	31.0

Undiluted and diluted earnings per share are calculated on the average time weighted number of shares outstanding during the year. There are no outstanding employee option plans or debt conversion rights.

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