

Credit Suisse International
Unaudited Consolidated
Interim Financial Statements
for the Six Months
Ended 30 June 2015

Credit Suisse International

Unaudited Consolidated Interim Financial Statements
for the Six Months Ended 30 June 2015

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Board of Directors as at 30 June 2015

Noreen Doyle (Chair and Independent Non-Executive)

Gael de Boissard (CEO)

Paul Ingram

Jason Forrester

Christopher Horne

Richard Thornburgh (Independent Non-Executive)

Company Secretary

Paul E Hare

Interim Management Report for the Six Months Ended 30 June 2015

The Directors present their Interim Management Report and the Condensed Unaudited Consolidated Interim Financial Statements for the six months ended 30 June 2015.

INTERNATIONAL FINANCIAL REPORTING STANDARDS

Credit Suisse International's 2015 Condensed Consolidated Interim Financial Statements have been prepared in accordance with IAS 34, "Interim Financial Reporting" as adopted for use in the European Union ('EU').

The Condensed Consolidated Interim Financial Statements were authorised for issue by the Directors on 27 August 2015.

BUSINESS REVIEW

Profile

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

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

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

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

As a leading financial services provider, CS group is committed to delivering its combined financial experience and expertise to corporate, institutional and government clients and high-net-worth individuals worldwide, as well as to retail clients in Switzerland. CS group serves its diverse clients through two divisions, Investment Banking and Private Banking & Wealth Management, which co-operate closely to provide holistic financial solutions based on innovative products and specially tailored advice. Founded in 1856, CS group has a truly global reach today, with operations in over 50 countries and a team of more than 45,940 employees from approximately 150 different nations.

Principal products/Principal product areas

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

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

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

Economic environment

In 2015, Global economic activity stabilised and showed signs of improvement in the eurozone. In the UK, the annual rate of Consumer Price Index ('CPI') inflation decreased to 0.0% at the end of June 2015, compared to 0.5% at the end of 2014. The Bank of England ('BOE') maintained interest rates at 0.5% throughout the period and the stock of asset purchases financed by the issuance of central bank reserves at GBP 375 billion. The unemployment rate dropped to 5.6% at the end of June 2015 from 5.8% at the end of 2014. UK Gross Domestic Product ('GDP') was 2.6% higher in Q2 2015 compared with the same quarter a year ago.

In the eurozone, inflation data moved slightly higher and economic activity improved slowly, with signs of recovery broadening in major economies such as Germany, Spain, France and Italy. The European Central Bank ('ECB') announced in January 2015 that it would expand its asset purchase program to include sovereign bonds by purchasing EUR 60 billion of private and public sector assets per month until at least September 2016 or until a sustained adjustment is seen in the path of inflation below, but close to, 2% over the medium term. Euro-area interest rates fell slightly at very short tenors in response to the increase in liquidity resulting

from the scheme. In January 2015, the Swiss National Bank ('SNB') decided to discontinue the minimum exchange rate of CHF 1.2 per euro and to further lower short-term interest rates. Eurozone equity markets, led by Germany, surged after the announcement of a larger than expected ECB asset purchase program and the resulting euro depreciation in the first quarter. However, European equity markets underperformed, weighed down by the developments relating to the Greek debt negotiations, in the second quarter.

In fixed income, euro sovereign bond yields increased significantly in anticipation of the start of the ECB asset purchase program. Inflation linked bonds outperformed nominal government bonds. As a consequence of the SNB announcement in January 2015, the Swiss franc appreciated considerably against major currencies, including against the US dollar, which was one of the strongest currencies in the first quarter. The British pound appreciated against the euro on expectations of divergence in monetary policy between the UK and the eurozone. The British pound appreciated against most other major currencies as political uncertainty declined after the UK elections. European bank stocks underperformed World Bank and global equity stocks. European equity underwriting increased compared to the end of 2014, but decreased compared to the same period last year. Global debt underwriting volumes were significantly higher compared to the end of last year, mainly driven by Europe, and also increased compared to the same period last year.

Performance

Condensed Consolidated Statement of Income

For the first half of 2015, the CSi group reported a net gain attributable to shareholders of USD 100 million (2014: USD 371 million loss). Net revenues amounted to USD 1,214 million (2014: USD 882 million). After operating expenses, the CSi group reported a profit before taxes of USD 173 million (2014: USD 101 million gain). Income tax expense for the first half was USD 73 million (2014: USD 472 million).

The Fixed Income business showed improvement, with revenues increasing by 20% to USD 816 million (2014: USD 683 million). The Rates business was the significant contributor within FID, driven by an increase in the America region, amid a pickup in client flow and increased volatility arising from geopolitical risks and uncertainty around global Central Bank policy. Revenues in Global Credit Products were lower, mainly due to a decrease in Leverage Finance, driven by a decrease in trading volumes and deals in the primary issuance business. In Emerging Markets, revenues declined due to a decrease in new trading activity and a decrease in customer activity and flow trading.

Equities revenue increased by 33% to USD 595 million (2014: USD 447 million). This was mostly driven by an increase in client activity in Equity Derivatives as well as favourable market conditions in Asia.

Investment Banking revenues declined marginally to USD 126 million (2014: USD 127 million).

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

- Increased revenue sharing expenses for the period of USD 235 million (2014: USD 222 million). This relates to revenue

sharing agreements between the CSi group and other CS group companies.

- Reduced treasury funding charges of USD 132 million (2014: USD 154 million). This primarily comprises excess funding charges on long term financing versus overnight funding rates, which are only allocated out to the businesses at the CS group level. The lower average cost of borrowing has been achieved through the restructure of the funding profile of the Bank.

The CSi group's operating expenses were USD 1,041 million (2014: USD 781 million). Compensation costs have increased by USD 53 million to USD 256 million in the first half of 2015 (2014: USD 203 million). The increase is primarily due to a fixed cash allowance granted as per CRDIV guidelines together with increase in deferred compensation awards, and payroll tax associated with the awards. There has additionally been an increase of USD 66 million in Net Overheads allocated from other CS group entities, an increase in Occupancy Expenses of USD 88 million which includes a provision for an onerous lease contract and an increase in litigation provisions.

Income tax expense for the six months ended 30 June 2015 was USD 73 million (2014: USD 472 million). Refer Note 11 – Income Tax.

Condensed Consolidated Statement of Financial Position

As at 30 June 2015 the CSi group had total assets of USD 453 billion (31 December 2014: USD 548 billion).

The main movements in the Consolidated Statement of Financial Position are as follows:

- Trading financial assets at fair value through profit or loss have decreased by USD 90 billion. The decrease was primarily due to mark to market moves on interest rate derivative products. There has similarly been a decrease of USD 89 billion in trading financial liabilities at fair value through profit or loss.
- Associated with the above, Other assets have decreased by USD 4 billion to USD 45 billion, due to a decrease in the cash collateral provided to counterparties in relation to derivative exposures. There has similarly been a decrease of USD 6 billion in other liabilities.
- Long term debt has decreased by USD 3 billion as a result of a decrease in senior debt from a CS group company and is offset by an increase of USD 3 billion in short term borrowings.
- Deposits have decreased by USD 3 billion due to the sale of the Prime Fund Services business in Dublin branch.

Total shareholder's equity was USD 24 billion (31 December 2014: USD 24 billion)

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

Total Level 3 assets were USD 8.5 billion as at 30 June 2015 (31 December 2014: USD 11.6 billion), which was equivalent to 1.88% of total assets. The decrease in Level 3 assets was due to cash settlements and the disposal of Level 3 positions, and due to transfers out of Level 3 as a result of increasing observability and quotes on Level 3 loans.

Total Level 3 liabilities were USD 8.7 billion as at 30 June 2015 (31 December 2014: USD 11.4 billion), which was equivalent to 1.94% of total liabilities.

Fair Value disclosures are presented in Note 20 – Financial Instruments.

Selected European credit risk exposures

CSi's exposure to certain European countries is summarised in the table below. Gross credit risk exposures, presented on a risk-based view, include loans and loan commitments, investments

(such as cash securities and other investments) and all exposures of derivatives (not limited to credit protection purchased and sold), after consideration of legally enforceable netting agreements. Net exposures include the impact of risk mitigation such as Credit Default Swaps ('CDS') and other hedges, guarantees, insurance and collateral (primarily cash and securities). Collateral values applied for the calculation of the net exposure are determined in accordance with risk management policies and reflect applicable margining considerations.

30 June 2015 (USD Billions)	Sovereign		Financial Institutions		Corporate	
	Gross Exposure	Net Exposure	Gross Exposure	Net Exposure	Gross Exposure	Net Exposure
Greece	0.0	0.0	0.1	0.0	0.0	0.0
Ireland	0.0	0.0	1.1	0.8	0.3	0.0
Italy	3.8	0.8	1.4	0.5	0.1	0.1
Portugal	0.0	0.0	0.1	0.0	0.0	0.0
Spain	0.0	0.0	0.8	0.3	0.3	0.3
Russia	0.2	0.2	0.7	0.2	0.3	0.1
Ukraine	0.3	0.0	0.1	0.0	0.0	0.0
Total	4.3	1.0	4.3	1.8	1.0	0.5

Capital Resources

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

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

Changes in senior and subordinated debt are set out in Note 16 – Long Term Debt. There were no changes in capital, refer Note 17 – Called-up Share Capital and Share Premium.

Outlook

In 2015, CSi continued to make progress in executing its client-focused, capital-efficient strategy to meet emerging client needs and regulatory trends. CSi is progressing towards achieving specific goals to reduce its cost base and strengthen its capital position, and has operated under the Basel III capital framework, as implemented in the EU, since January 2014. CSi has further optimised its business footprint, continuing to shift resources to focus on growth in higher returning businesses, and reducing costs and capital in the non-strategic portfolio. Management is currently in the process of thoroughly assessing the Bank's strategy, the results of which will be announced before year-end. When this

process is concluded, it is possible that the cost savings plans and targets will change.

CSi remains committed to offering its clients a broad spectrum of equities, fixed income, and investment banking advisory products and services. CSi is focused on businesses in which the bank has a competitive advantage and is able to operate profitably with an attractive return on capital in the new regulatory environment. While the industry still faces significant adjustments to new regulatory requirements, CSi has significantly evolved its business model to one that is compliant with the Basel III regulatory framework. CSi will continue to invest in its market-leading, high-returning businesses while optimising its risk weighted assets and cost base to further improve returns.

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

Dividends

No dividends have been paid for the period ended 30 June 2015 (2014: USD Nil).

Directors

None of the directors who held office at the end of the period were directly beneficially interested, at any time during the period, in the shares of the Bank.

Directors of the CSi group benefited from qualifying third party indemnity provisions in place during the interim period and at the date of this report.

Changes in the directorate since 31 December 2014 and up to the date of this report are as follows:

Appointment

Paul Ingram	20 March 2015
Christopher Horne	14 May 2015

Resignation

Michael Hodgson	31 December 2014
Gary Bullock	31 December 2014
Stephen Kingsley	31 March 2015
Christopher Williams	04 March 2015

Subsequent Events

In the UK budget announcement of 8 July 2015, the UK government announced its intention to reduce the UK corporation tax rate to 19% from 2017 and 18% from 2020 and to introduce an 8% supplementary surcharge on bank profits from 1 January 2016. These tax rate reductions and surcharge are expected to be substantively enacted in 2015. The deferred tax asset at 30 June 2015 has been calculated based on the rate of 20% enacted at the Statement of Financial Position date.

US Antitrust Class Action re CDS: Certain Credit Suisse entities, as well as other banks, have been named in civil litigation in the US, currently pending in the US District Court for the Southern District of New York. In August 2015 a settlement in principle was reached with the class action plaintiffs to settle the action. The settlement is subject to the execution of formal settlement documentation and court approval. The Bank has fully provided for its expected share of the settlement. Further, Credit Suisse (USA), Inc. has received civil investigative demands from the United States Department of Justice.

Statement of Directors' Responsibilities

We confirm that to the best of our knowledge:

- The condensed set of financial statements has been prepared in accordance with IAS 34, "Interim Financial Reporting" as adopted by the EU;
- The Interim Management Report includes a fair review of the information required by:

DTR 4.2.7R of the Disclosure and Transparency Rules, being an indication of important events that have occurred during the first six months of the financial year and their impact on the condensed set of financial statements; and a description of the principal risks and uncertainties for the remaining six months of the year.

By Order of the Board:



Christopher Horne
Director

One Cabot Square
London E14 4QJ
27 August 2015

Financial Statements for the six months ended 30 June 2015 (Unaudited)

Condensed Consolidated Interim Statement of Profit or Loss for the six months ended 30 June 2015 (Unaudited)

	Reference to note	6M15	in 6M14
Consolidated statement of income (USD million)			
Interest income	4	277	384
Interest expense	4	(257)	(339)
Net interest income		20	45
Commission and fee income	5	60	76
Commission and fee expense	5	(29)	(71)
Net commission and fee income		31	5
Release of provision for credit losses	6	3	3
Net gains from financial assets/liabilities at fair value through profit or loss	7	1,360	1,035
Other revenues	8	(200)	(206)
Net revenues		1,214	882
Compensation and benefits	9	(256)	(203)
General, administrative and trading expenses	10	(785)	(578)
Total operating expenses		(1,041)	(781)
Profit before taxes		173	101
Income tax expense	11	(73)	(472)
Net profit/(loss)		100	(371)
Attributable to Credit Suisse International shareholders		100	(371)

Statement of Profit or Loss and Other Comprehensive Income for the six months ended 30 June 2015 (Unaudited)

	6M15	6M14
Statement of Comprehensive Income (USD million)		
Net Profit/(loss)	100	(371)
Cash flow hedges – effective portion of changes in fair value	2	–
Cash flow hedges – reclassified to profit or loss	–	–
Total items that may be reclassified to net income	2	–
Other comprehensive income net of tax	2	–
Total comprehensive income	102	(371)
Attributable to Credit Suisse International shareholders	102	(371)

Profit/(Loss) for both 2015 and 2014 are from continuing operations.

Condensed Consolidated Interim Statement of Financial Position as at 30 June 2015 (Unaudited)

	Reference to note	6M15	end of 2014
Assets (USD million)			
Cash and due from banks		15,245	15,409
Interest-bearing deposits with banks		103	165
Securities purchased under resale agreements and securities borrowing transactions		35,377	33,742
Trading financial assets at fair value through profit or loss	13	338,318	428,160
of which positive market values from derivative instruments	13	305,311	389,218
Financial assets designated at fair value through profit or loss		13,273	16,445
Other loans and receivables		3,913	3,334
Other investments		26	28
Investment property		412	426
Current tax assets		63	69
Deferred tax assets	12	325	386
Other assets	15	45,357	49,405
Property and equipment		197	204
Intangible assets		350	364
Total assets		452,959	548,137
Liabilities and shareholders' equity (USD million)			
Deposits		1,111	4,464
Securities sold under repurchase agreements and securities lending transactions		7,799	8,650
Trading financial liabilities at fair value through profit or loss	13	317,155	405,889
of which negative market values from derivative instruments	13	312,275	396,949
Financial liabilities designated at fair value through profit or loss		30,728	27,340
Short term borrowings		20,192	17,267
Other liabilities	15	29,609	35,511
Provisions		114	14
Long term debt	16	22,120	24,973
Total liabilities		428,828	524,108
Shareholders' equity			
Share capital	17	13,108	13,108
Share premium	17	12,699	12,699
Retained earnings		(1,674)	(1,774)
Accumulated other comprehensive income		(2)	(4)
Total shareholders' equity		24,131	24,029
Total liabilities and shareholders' equity		452,959	548,137

Approved by the Board of Directors on 27 August 2015 and signed on its behalf by:



Christopher Horne
Director

Condensed Consolidated Interim Statement of Changes in Equity for the six months ended 30 June 2015 (Unaudited)

	Share Capital	Share Premium	Retained earnings	Accumulated Other Comprehen- sive Income	Total
Condensed consolidated statement of changes in equity (USD million)					
Balance at 1 January 2015	13,108	12,699	(1,774)	(4)	24,029
Total comprehensive income for the period					
Net profit/(loss) for the period	-	-	100	-	100
Other Comprehensive Income	-	-	-	2	2
Balance at 30 June 2015	13,108	12,699	(1,674)	(2)	24,131
Condensed consolidated statement of changes in equity (USD million)					
Balance at 1 January 2014	13,108	12,699	(779)	-	25,028
Total comprehensive income for the period					
Net profit/(loss) for the period	-	-	(371)	-	(371)
Other Comprehensive Income	-	-	-	-	-
Balance at 30 June 2014	13,108	12,699	(1,150)	-	24,657

There were no dividends paid during the six months ended 30 June 2015 (six months ended 30 June 2014: Nil).

Condensed Consolidated Interim Statement of Cash Flows for the six months ended 30 June 2015 (Unaudited)

	6M15	6M14
Cash flows from operating activities (USD million)		
Profit before tax for the period	173	101
Adjustments to reconcile net profit to net cash used in operating activities (USD million)		
Non-cash items included in net profit before tax and other adjustments:	–	–
Depreciation and amortisation	104	126
Depreciation of investment property	5	15
Loss on disposal of property and equipment	–	2
Impairment on loan commitments	(1)	–
Loss on disposal of intangible assets	–	2
Accrued interest on long term debt	4	112
Release of provision for credit losses	6	(3)
Foreign exchange gains	(779)	(329)
Provisions	100	20
Provision reserve for occupancy expenses	101	–
Total adjustments	(361)	(11)
Cash generated before changes in operating assets and liabilities	(188)	90
Net decrease/(increase) in operating assets:		
Securities purchased under resale agreements and securities borrowing transactions	(1,635)	(10,742)
Trading financial assets at fair value through profit or loss	89,844	13,632
Financial assets designated at fair value through profit or loss	3,172	2,261
Other loans and receivables	(575)	109
Other assets	4,055	(8,625)
Net decrease/(increase) in operating assets	94,861	(3,365)
Net (decrease)/increase in operating liabilities:		
Deposits	(1,798)	(999)
Securities sold under resale agreements and securities lending transactions	(851)	2,801
Trading financial liabilities at fair value through profit or loss	(88,734)	(8,237)
Financial liabilities designated at fair value through profit or loss	3,388	3,783
Short term borrowings	2,925	3,959
Other liabilities and provisions	(6,002)	(6,417)
Share based compensation	(14)	(49)
Net (decrease)/increase in operating liabilities	(91,086)	(5,159)
Income taxes refund	5	2
Income taxes paid	(11)	–
Net cash used in operating activities	3,581	(8,432)
Cash flows from investing activities (USD million)		
Sale of long leasehold land and building	–	10
Sale of PFS business (Net of cash acquired)	(30)	–
Capital expenditure for property equipment and intangible assets	(82)	(82)
Net cash used in investing activities	(112)	(72)
Cash flow from financing activities (USD million)		
Issuance of long term debt	16	1,978
Repayment of long term debt	(4,148)	(1,414)
Net cash flow generated from / (used in) financing activities	(2,170)	8,324
Net decrease in cash and cash equivalents	1,299	(180)
Cash and cash equivalents at beginning of period	13,049	25,198
Cash and cash equivalents at end of period (USD million)	14,348	25,018
Cash and due from banks	15,245	20,567
Interest-bearing deposits with banks	103	7,680
Demand deposits	(1,000)	(3,229)
Cash and cash equivalents at end of period (USD million)	14,348	25,018

The accompanying notes on pages 12 to 43 are an integral part of these condensed consolidated interim financial statements.

Notes to the Condensed Consolidated Interim Financial Statements for the Six Months Ended 30 June 2015 (Unaudited)

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Notes to the Condensed Consolidated Interim Financial Statements for the Six Months Ended 30 June 2015 (Unaudited)

1 General

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

30 June 2015 comprise CSI and its subsidiaries (together referred to as the 'CSI group').

The Condensed Consolidated Interim Financial Statements were authorised for issue by the Directors on 27 August 2015.

2 Significant Accounting Policies

Basis of preparation

The accompanying unaudited Condensed Consolidated Interim Financial Statements of the CSI group are prepared in accordance with IAS 34 "Interim Financial Reporting" ('IAS 34') as adopted for use in the European Union ('EU') and are stated in United States Dollars ('USD') rounded to the nearest million. Certain financial information, which is normally included in Annual Consolidated Financial Statements prepared in accordance with International Financial Reporting Standards ('IFRS') but not required for interim reporting purposes, has been condensed or omitted. These Condensed Consolidated Interim Financial Statements should be read in conjunction with the IFRS Consolidated Financial Statements and notes thereto for the year ended 31 December 2014. Except as described below, the accounting policies applied by the CSI group in these Condensed Consolidated Interim Financial Statements are the same as those applied by the CSI group in its Consolidated Financial Statements for the year ended 31 December 2014.

The Condensed Consolidated Interim Financial Statements are prepared on the historical cost basis except that the following assets and liabilities are stated at their fair value: derivative financial instruments, financial instruments held for trading and financial instruments designated by the CSI group as at fair value through profit and loss.

The preparation of Condensed Consolidated Interim Financial Statements in conformity with IFRS requires management to make judgements, estimates and assumptions for certain categories of assets and liabilities. These estimates and assumptions affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities as of the date of the Condensed Consolidated Interim Statement of Financial Position and the reported amounts of revenues and expenses during the reporting period. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making the judgements about carrying values of assets and liabilities that are not readily apparent from other sources. Actual results could differ from management's estimates.

The significant judgements made by management in applying the Bank's accounting policies and the key sources of estimation uncertainty were the same as those that applied to the Consolidated Financial Statements as at and for the year ended 31 December 2014.

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

The CSI group and the Bank have unrestricted and direct access to funding sources of CSG. After making enquiries of CSG, the Directors of the Bank have received a confirmation that CSG will ensure that the Bank maintains a sound financial position and is able to meet its debt obligations for the foreseeable future. Accordingly the Directors have prepared these Condensed Consolidated Interim Financial Statements on a going concern basis.

Standards and Interpretations effective in the current period

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

- Annual Improvements to IFRSs 2011-2013 Cycle: In December 2013, the IASB issued 'Annual Improvements to IFRSs Cycle 2011-2013' (Improvements to IFRSs 2011-2013), which contain numerous amendments to IFRS that the IASB considers non-urgent but necessary. The adoption of the Improvements to IFRSs 2011-2013 on 1 January 2015 did not have an impact on the CSI group's financial position, results of operation or cash flows.
- Annual Improvements to IFRSs 2010-2012 Cycle: In December 2013, the IASB issued 'Annual Improvements to IFRSs Cycle 2010-2012' (Improvements to IFRSs 2010-2012). The adoption of the Improvements to IFRSs 2010-2012 on 1 January 2015 did not have an impact on the CSI group's financial position, results of operation or cash flows.

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

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

- IFRS 9 Financial Instruments: In November 2009 the IASB issued IFRS 9 “Financial Instruments” (IFRS 9) covering the classification and measurement of financial assets which introduces new requirements for classifying and measuring financial assets. In October 2010, the IASB reissued IFRS 9, which incorporated new requirements on the accounting for financial liabilities. In July 2014, the IASB issued IFRS 9 as a complete standard. The Standard includes requirements for recognition and measurement, impairment, derecognition and general hedge accounting. IFRS 9 is effective for annual periods beginning on or after 1 January 2018. The CSi group is currently evaluating the impact of adopting IFRS 9.
- IFRS 15 Revenue from Contracts with Customers: In May 2014, the IASB issued “Revenue from Contracts with Customers” (IFRS 15). IFRS 15 establishes a single, comprehensive framework for revenue recognition. The core principle of IFRS 15 is that an entity will recognise revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. IFRS 15 also includes disclosure requirements to enable users of financial statements to understand the nature, amount, timing and uncertainty of revenue and cash flows arising from contracts with customers. IFRS 15 is effective for annual reporting periods beginning on or after 1 January 2018. The CSi group is currently evaluating the impact of adopting IFRS 15.
- Amendments to IAS 27: Equity Method in Separate Financial Statements: In August 2014 the IASB issued Equity Method in Separate Financial Statements. The Amendments reinstate the equity method as an accounting option for investments in subsidiaries, joint ventures and associates in an entity’s separate financial statements. The Amendments to IAS 27 are effective for annual periods beginning on or after 1 January 2016. The CSi group is currently evaluating the impact of adopting the Amendments to IAS 27.
- Annual Improvements to IFRSs 2012-2014 Cycle: In September 2014, the IASB issued “Annual Improvements to IFRSs 2012-2014 cycle” (Improvements to IFRSs 2012-2014). The Improvements to IFRSs 2012-2014 are effective for annual periods beginning on or after 1 January 2016. The CSi group is currently evaluating the impact of adopting these Improvements to IFRSs.
- Amendments to IFRS 10 and IAS 28: Sale or Contribution of Assets between an Investor and its Associate or Joint Venture: In September 2014, the IASB issued Sale or Contribution between an Investor and its Associate or Joint Venture (Amendments to IFRS 10 and IAS 28). The Amendments clarify that in a transaction involving an associate or joint venture the extent of gain or loss recognition depends on whether the assets sold or contributed constitute a business. The Amendments are effective for annual periods beginning on or after 1 January 2016. The Amendments to IFRS 10 and IAS 28 will not have a material impact on the CSi group’s financial position, results of operation or cash flows.
- Investment entities: Applying the Consolidation Exception (Amendments to IFRS 10, IFRS 12 and IAS 28): In December 2014, the IASB issued Investment Entities: Applying the Consolidation Exception (Amendments to IFRS 10, IFRS 12 and IAS 28). The Amendments address issues that have arisen in relation to the exemption from consolidation for investment entities. The Amendments are effective for annual periods beginning on or after 1 January 2016. The CSi group is currently evaluating the impact of adopting the Amendments to IFRS 10, IFRS 12 and IAS 28.
- Disclosure Initiative (Amendments to IAS 1): In December 2014, the IASB issued Amendments to IAS 1 as part of their Disclosure Initiative. The Amendments clarify guidance regarding materiality, notes to the financial statements and the presentation of the Statement of Financial Position and Statement of Profit or Loss and Other Comprehensive income. The Amendments will allow entities to use more judgement when preparing and presenting financial statements. The Amendments to IAS 1 are effective for annual periods beginning on or after 1 January 2016. As the Amendments to IAS 1 impact disclosures only, there will be no impact to the CSi group’s financial position, results of operation or cash flows.

The accounting policies have been applied consistently by all CSi group entities.

Certain reclassifications have been made to the prior year Condensed Consolidated Interim Financial Statements of the CSi group to conform to the current year’s presentation and had no impact on net (loss)/ income or total shareholders’ equity.

Within these Condensed Consolidated Interim Financial Statements, references to ‘6M15’ represent the six month period ended 30 June 2015, references to ‘6M14’ represent the six month period ended 30 June 2014, and ‘end of 2014’ represents the financial position as at and for the year ended 31 December 2014.

3 Segmental Analysis

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

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

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

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

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

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

	6M15	6M14
Revenues (USD million)		
Fixed income	816	683
Equities	595	447
Investment banking	126	127
Total	1,537	1,257

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

	6M15	6M14
Revenues (USD million)		
EMEA ¹	755	813
Americas	351	213
Asia	431	231
Total	1,537	1,257

¹ EMEA is defined as Europe Middle East and Africa excluding Switzerland and Luxembourg.

Reconciliation of reportable segment revenues

	6M15	6M14
Reconciliation of reportable segment revenues (USD million)		
Total revenues for reportable segments	1,537	1,257
Revenue sharing agreements	(235)	(222)
Treasury funding	(132)	(154)
Other corporate items ¹	(26)	(87)
CS group to primary reporting reconciliations ²	70	88
Net Revenues per statement of comprehensive income	1,214	882

¹ Significant items being losses on risk weighted asset ('RWA') hedges.

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

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

4 Net Interest Income/(Expense)

	6M15	6M14
Net interest income/(expense) (USD million)		
Other loans and receivables	173	196
Securities purchased under resale agreements and securities borrowing transactions	36	33
Cash collateral paid on OTC derivatives transactions	9	46
Interest income on cash and cash equivalents and loans	59	109
Interest income	277	384
Deposits	(3)	(1)
Short term borrowings	(96)	(94)
Securities sold under repurchase agreements and securities lending transactions	(36)	(32)
Long term debt	(112)	(156)
Cash collateral received on OTC derivatives transactions	(10)	(56)
Interest expense	(257)	(339)
Net interest income/(expense)	20	45

5 Commissions and Fee Income

	6M15	6M14
Commission and fees income (USD million)		
Lending business	60	76
Other customer services	(29)	(71)
Net commission and fee income	31	5
Total commission and fee income	60	76
Total commission and fee expense	(29)	(71)
Net commission and fee income	31	5

6 Release of provision for Credit Losses

	6M15	6M14
Release of provision for credit losses (USD million)		
Additional provision for credit losses	(3)	(6)
Release of provision for credit losses	6	9
Release of provision for credit losses	3	3

7 Net Gains from Financial Assets/Liabilities at Fair Value Through Profit or Loss

	6M15	6M14
Net gains from financial assets/liabilities at fair value through profit or loss (USD million)		
Interest rate	4,147	3,820
Foreign exchange	(858)	(2,911)
Equity	(1,743)	37
Commodity	111	79
Credit	(283)	(67)
Other	(14)	77
Total net gains from financial assets/liabilities at fair value through profit or loss	1,360	1,035

8 Other Revenue

	6M15	6M14
Other revenues (USD million)		
Revenue sharing agreement expense	(235)	(222)
Other	35	16
Other revenues	(200)	(206)

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

9 Compensation and Benefits

	6M15	6M14
Compensation and benefits (USD million)		
Salaries and variable compensation	(214)	(176)
Social security	(30)	(19)
Pensions	(7)	(7)
Other	(5)	(1)
Compensation and benefits	(256)	(203)

10 General and Administrative Expenses

	6M15	6M14
General administrative and trading expenses (USD million)		
Brokerage Charges and Clearing House Fees	(127)	(139)
Insurance Charges	(23)	(49)
Trading expenses	(150)	(188)
Occupancy Expenses	(105)	(17)
Amortisation Expenses	(73)	(95)
Depreciation Expenses	(29)	(33)
Depreciation of Investment Property	(5)	(15)
Litigation	(110)	(20)
Professional Services	(29)	(13)
Impairment of Intangible Asset	(2)	(2)
CSG Trademark	(2)	(2)
Net Overheads allocated from other CS group Entities	(246)	(180)
UK Bank Levy	-	14
Marketing Data, Publicity and Subscription	(9)	(9)
Non Income Taxes	(12)	(8)
Other	(13)	(10)
General and administrative expenses	(635)	(390)
General, administrative and trading expenses	(785)	(578)

During 2011 the UK Government introduced the UK Bank Levy, for all Banks and Banking groups operating in the UK. The Levy is charged on a firm's liabilities as at the Statement of Financial Position date (i.e. 31 December 2015). The rate for short term liabilities from 1 April 2015 is 0.21% (increased from 0.156%) and for long term liabilities from 1 April 2015 is 0.105% (increased from 0.078%). Under current accounting requirements (IFRIC 21),

the Bank Levy charge will only be recognised in the Financial Statements on 31 December each year. The estimate for the liability in respect of 2015 is USD 61 million (2014: USD 38 million). Included in Occupancy Expenses is a provision of USD 101 million (2014: USD Nil) in relation to an onerous lease contract on property that the Bank is expected to vacate.

11 Income Tax

	6M15	6M14
Income tax (USD million)		
Current tax	(12)	(1)
Deferred tax	(61)	(471)
Income tax expense	(73)	(472)

The income tax expense for the period can be reconciled to the profit as per the Statement of Profit or Loss as follows:

Reconciliation of taxes computed at the UK statutory rate

	6M15	6M14
Income tax reconciliation (USD million)		
Profit before tax	173	101
Profit before tax multiplied by the UK statutory rate of corporation tax of 20.25% (2014: 21.49%)	(35)	(22)
Effect of deferred tax resulting from changes to tax rates	1	(7)
Adjustments to deferred tax in respect of previous periods	(4)	(1)
Adjustments to current tax in respect of previous periods	(2)	–
Effect of different tax rates of operations / subsidiaries operating in other jurisdictions	(11)	–
Other permanent differences	(22)	8
Impairment of deferred tax asset	–	(450)
Income tax charge	(73)	(472)

In the UK budget announcement of 8 July 2015, the UK government announced its intention to reduce the UK corporation tax

rate to 19% from 2017 and 18% from 2020. These tax rate reductions are expected to be substantively enacted in 2015.

12 Deferred Tax Asset

	6M15	2014
Deferred tax (USD million)		
Deferred tax assets	325	386
Net position	325	386
Balance at 1 January	386	973
Debit to income for the year	(62)	(572)
Effect of change in tax rate expensed to income statement	1	(15)
At end of the period/year	325	386

Deferred taxes are calculated on all temporary differences under the liability method using an effective tax rate of 20% (30 June 2015 and 31 December 2014: 20%). The UK corporation tax rate reduced from 23% to 21% with effect from 1 April 2014. Furthermore, the UK corporation tax rate reduced from 21% to 20% with effect from 1 April 2015.

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

taxable income. Management regularly evaluates whether DTA can be realised and if not, an impairment made.

In evaluating whether DTA can be realised, management considers both positive and negative evidence, including projected future taxable income, the scheduled reversal of deferred tax liabilities and tax planning strategies. This evaluation requires significant management judgement, primarily with respect to projected taxable income, also taking into account the history of recent losses of the Bank (primarily arising from the financial crisis that started in late 2008 and thereafter). The future taxable income can never be predicted with certainty, but management also evaluated the factors contributing to the losses and considered whether or not they are temporary or indicate an expected permanent decline in earnings. The evaluation is derived from budgets and strategic business plans but is dependent on numerous factors, some of which are beyond management's control, such as

the fiscal and regulatory environment and external economic growth conditions. Substantial variance of actual results from estimated future taxable profits, or changes in CSi group's estimate of future taxable profits and potential restructurings, could lead to changes in the amount of DTA that are realisable, or considered realisable, and would require a corresponding adjustment to the level of recognised DTA.

In his 2014 Autumn Statement, the UK Chancellor of the Exchequer announced proposals to restrict the use of losses carried forward by UK Banks to a maximum of 50% of profits in

periods from April 2015 onwards. This tax law change was enacted on 26 March 2015 and is not expected to have a material impact on the recoverability of the net deferred tax asset.

Furthermore, the budget announcement included a further proposal for an 8% supplementary surcharge on Bank profits from 1 January 2016.

As a consequence of this evaluation, the enactment of the loss restriction proposals and the further budget announcements of 8 July, it was considered that no additional impairment of the DTA is required for the period to 30 June 2015.

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

	6M15	2014
Trading financial assets at fair value through profit or loss (USD million)		
Debt securities	22,322	24,980
Equity securities	7,959	10,271
Derivative instruments	305,311	389,218
Other	2,726	3,691
Trading financial assets at fair value through profit or loss	338,318	428,160
Trading financial liabilities at fair value through profit or loss (USD million)		
Short positions	4,862	8,931
Derivative instruments	312,275	396,949
Other	18	9
Trading financial liabilities at fair value through profit or loss	317,155	405,889

14 Derivatives

	Gross Derivative Assets	Gross Derivative Liabilities
30.06.15		
Derivatives (USD million)		
Interest rate products	282,567	271,658
Foreign exchange products	67,887	80,363
Equity/indexed-related products	27,486	28,839
Credit products	26,211	26,363
Other products	1,612	1,692
Total Derivative Instruments	405,763	408,915

	Gross Derivative Assets	Gross Derivative Liabilities
31.12.14		
Derivatives (USD million)		
Interest rate products	477,331	466,101
Foreign exchange products	84,374	96,735
Equity/indexed-related products	27,127	28,293
Credit products	31,171	30,654
Other products	6,269	7,067
Total Derivative Instruments	626,272	628,850

Offsetting of derivative instruments

(USD millions)	30.06.15			31.12.14		
	Gross	Offsetting	Net	Gross	Offsetting	Net
Derivative Assets						
Derivative instruments subject to enforceable master netting agreements	402,943	(100,452)	302,491	622,517	(237,054)	385,463
Derivative instruments not subject to enforceable master netting agreements ¹	2,820	–	2,820	3,755	–	3,755
Total derivative instruments presented in the Condensed Consolidated Interim Statement of Financial Position	405,763	(100,452)	305,311	626,272	(237,054)	389,218
of which recorded in trading financial assets at fair value through profit or loss	405,763	(100,452)	305,311	626,272	(237,054)	389,218
Derivative Liabilities						
Derivative instruments subject to enforceable master netting agreements	404,527	(96,640)	307,887	622,732	(231,901)	390,831
Derivative instruments not subject to enforceable master netting agreements ¹	4,388	–	4,388	6,118	–	6,118
Total derivative instruments presented in the Condensed Consolidated Interim Statement of Financial Position	408,915	(96,640)	312,275	628,850	(231,901)	396,949
of which recorded in trading financial liabilities at fair value through profit or loss	408,915	(96,640)	312,275	628,850	(231,901)	396,949

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

Due to a rulebook change in 2015, OTC cleared swaps with a clearing house in the US are proposed to be treated as daily settled. The clearing house and market participants are in the process of obtaining legal opinions to confirm this treatment. Therefore the outstanding exposures (which include obligations to pay variation margin and price alignment interest at least once a business day) will be settled upon completion of the settlement cycle and when the payment is made in satisfaction of the outstanding exposures.

As of 30 June 2015, this change would have reduced Gross Derivative Assets and Gross Derivative Liabilities by USD 17.8 billion and USD 16.7 billion, respectively, as well as cash collateral liabilities on derivative instruments by USD 1.1 billion. The

variation margin, which is unsettled until the next settlement cycle is conducted, would have been recognised in brokerage receivable or brokerage payables (Note 15).

The change would not have had a material impact on the Condensed Consolidated Interim Statement of Profit or Loss for the six months ended 30 June 2015.

Given that daily settled OTC cleared swaps are not subject to fair value measurement, they would have been excluded from the fair value disclosures in Note 20. Prior to the rulebook change, the majority of the OTC cleared swaps with the clearing house were categorised under Level 2 of the fair value hierarchy.

15 Other Assets and Other Liabilities

	30.06.15	31.12.14
Other assets (USD million)		
Brokerage receivables	4,437	4,185
Interest and fees receivable	116	159
Cash collateral on derivative instruments		
Banks	18,248	19,296
Customers	22,401	25,547
Other	155	218
Other assets	45,357	49,405
Other liabilities (USD million)		
Brokerage payables	768	1,212
Interest and fees payable	651	769
Cash collateral on derivative instruments		
Banks	15,459	17,526
Customers	12,107	15,258
Failed sales	2	39
Share-based compensation liability	110	124
Other	512	583
Other liabilities	29,609	35,511

16 Long Term Debt

	Balance as at 1 January 2015	Issuances	Repayments and other movements	Translation FX and Interest movements	Balance as at 30 June 2015
Long term debt (USD million)					
Senior debt	16,582	1,978	(4,148)	(700)	13,712
Subordinated debt	8,391	–	–	17	8,408
Total Long Term Debt	24,973	1,978	(4,148)	(683)	22,120

	Balance as at 1 January 2014	Issuances	Repayments and other movements	Translation FX and Interest movements	Balance as at 30 June 2014
Long term debt (USD million)					
Senior debt	11,730	9,738	(16)	(229)	21,223
Subordinated debt	9,713	–	(1,398)	59	8,374
Total Long Term Debt	21,443	9,738	(1,414)	(170)	29,597

The decrease in senior debt in 2015 was principally as a result of changes to long term funding requirements resulting in repayments of USD 4.1 billion, partially offset by a EUR 1.8 billion borrowing from a CS group company with a maturity of 400 days.

17 Called-up Share Capital and Share Premium

	6M15	31.12.14
Share Capital		
Allotted called-up and fully paid (USD)		
131,076,560,047 Ordinary voting shares of USD 0.10 each	13,107,656,005	13,107,656,005
Total allotted called-up and fully paid capital	13,107,656,005	13,107,656,005
Share Premium (USD)		
Share Premium	12,698,984,345	12,698,984,345

The Ordinary Shares have full voting, dividend and capital distribution (including on winding up) rights attached to them.

18 Related Party

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

The CSi group has significant related party balances with subsidiaries and affiliates of CSG. These transactions largely comprise derivative trades, as the Bank is the principal risk taker for derivatives within the CS group, as well as funding trades via use of loans or deposits, repurchase or resale agreements. In addition, the ordinary shares are issued to CSG and subsidiaries of CSG, as outlined in Note 17 – Called-up Share Capital and Share Premium.

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

The Bank generally enters into the above transactions in the ordinary course of business on market terms that could be obtained from unrelated parties. The nature of related party transactions remained consistent for the six months ended 30 June 2015 compared to the year ended 31 December 2014.

19 Contingent Liabilities and Commitments

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

The European Commission Statement of Objections re CDS: In July 2013, the Directorate General for Competition of the European Commission ('DG Comp') issued a Statement of Objections ('SO') to various entities of thirteen CDS dealer banks, certain market entities and the International Swaps and Derivatives Association, Inc. ('ISDA') in relation to its investigation into possible violations of competition law by certain CDS market participants. Certain Credit Suisse entities were among the named bank entities. The SO marks the commencement of enforcement proceedings in respect of what DG Comp alleges were unlawful attempts to prevent the development of exchange traded platforms for CDS between 2006 and 2009. US Antitrust Class Action re CDS: Certain Credit Suisse entities, as well as other banks, have been named in civil litigation in the US, currently pending in the US District Court for the Southern District of New York. In August 2015 a settlement in principle was reached with the class action plaintiffs to settle the action. The settlement is subject to the execution of formal settlement documentation and court approval. The Bank has fully provided for its expected share of the settlement. Further, Credit Suisse (USA), Inc. has received civil investigative demands from the United States Department of Justice.

CSi is the defendant in English court litigation brought by Rosserlane Consultants Limited and Swinbrook Developments Limited (the claimants). The litigation relates to the forced sale by CSi in 2008 of Caspian Energy Group LP ('CEG'), the vehicle through which the claimants held a 51% stake in the Kyurovdag oil and gas field in Azerbaijan. CEG was sold for USD 245 million following

two unsuccessful M&A processes. The claimants allege that CEG should have been sold for at least USD 700 million. CSi is vigorously defending the claims, which it believes are without merit. The trial commenced in October 2014 and on 20 February 2015 the case was dismissed and judgment given in favour of CSi. The claimants are now appealing the judgement.

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

CSi is the defendant in German court litigation brought by Stadtwerke Munchen GmbH, a German water utility company (the 'claimant'). The litigation relates to a series of interest rate swaps entered into between 2008 and 2012. The claimant alleges breach of an advisory duty to provide both investor- and investment specific advice, including in particular a duty to disclose the initial mark-to-market value of the trades at inception. The claimant seeks damages of EUR 12 million, repayment of EUR 130 million of collateral held by CSi and release from all future obligations under the trades. A preliminary hearing has been scheduled for October 2015, with further hearing dates expected in 2016.

20 Financial Instruments

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

- Analysis of financial instruments by categories, and
- Fair value measurement (including fair value hierarchy; transfers between levels; Level 3 reconciliation; qualitative and quantitative disclosures of valuation techniques; sensitivity analysis of unobservable input parameters; and recognition of trade date profit).

Analysis of financial instruments by categories

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

Financial assets and liabilities by categories

					Carrying value	Total fair value
As at 30 June 2015	Total carrying value	Held for trading	Designated at fair value	Loans and receivables	Other amortised cost	
Financial assets (USD million)						
Cash and due from banks	15,245	–	–	–	15,245	15,245
Interest-bearing deposits with banks	103	–	–	–	103	103
Securities purchased under resale agreements and securities borrowing transactions	35,377	–	–	–	35,377	35,377
Trading financial assets at fair value through profit or loss	338,318	338,318	–	–	–	338,318
Financial assets designated at fair value through profit or loss	13,273	–	13,273	–	–	13,273
Other loans and receivables	3,913	–	–	3,913	–	3,927
Other investments	26	–	–	–	26	26
Other assets	45,357	–	–	–	45,357	45,357
Total financial assets	451,612	338,318	13,273	3,913	96,108	451,626
Financial liabilities (USD million)						
Deposits	1,111	–	–	–	1,111	1,111
Securities sold under repurchase agreements and securities lending transactions	7,799	–	–	–	7,799	7,799
Trading financial liabilities at fair value through profit or loss	317,155	317,155	–	–	–	317,155
Financial liabilities designated at fair value through profit or loss	30,728	–	30,728	–	–	30,728
Short term borrowings	20,192	–	–	–	20,192	20,192
Other liabilities	29,609	–	–	–	29,609	29,609
Long term debt	22,120	–	–	–	22,120	22,121
Total financial liabilities	428,714	317,155	30,728	–	80,831	428,715

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

Fair value measurement

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction in the principal (or most advantageous) market at the measurement date. A significant portion of the CSI group's financial instruments are carried

at fair value. Deterioration of financial markets could significantly impact the fair value of these financial instruments and the results of operations. For certain assets and liabilities, carrying value is a good approximation for fair value.

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

In addition, the CSi group holds financial instruments for which no prices are available and which have little or no observable inputs. Further deterioration of financial markets could significantly impact the value of these financial instruments and the results of operations. For these instruments, the determination of fair value requires subjective assessment and varying degrees of judgment, depending on liquidity, concentration, pricing assumptions, the current economic and competitive environment and the risks affecting the specific instrument. In such circumstances, valuation is determined based on management's own assumptions about the assumptions that market participants would use in pricing the asset or liability, including assumptions about risk. These instruments include certain OTC derivatives, including equity and credit derivatives, certain corporate equity-linked securities, mortgage-related and Collateralised Debt Obligation ('CDO') securities, private equity investments, certain loans and credit products, including leveraged finance, certain syndicated loans and certain high yield bonds.

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

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

IFRS 13 permits a reporting entity to measure the fair value of a group of financial assets and financial liabilities on the basis of the price that would be received to sell a net long position or paid to transfer a net short position for a particular risk exposure in an orderly transaction between market participants at the measurement date. This is consistent with industry practice. As such, the CSi group applies bid and offer adjustments to net portfolios of cash securities and/or derivative instruments to adjust the value of the net position from a mid-market price to the appropriate bid or offer level that would be realised under normal market conditions for the net long or net short position for a specific market risk. In addition, the CSi group reflects the net exposure to credit risk for its derivative instruments where the CSi group has legally enforceable agreements with its counterparties that mitigate credit risk exposure in the event of default. Valuation adjustments are recorded in a reasonable and consistent manner that results in an allocation to the relevant disclosures in the notes to the financial statements as if the valuation adjustment had been allocated to the individual unit of account.

Fair value hierarchy

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

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

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

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

As at 30 June 2015	Level 1	Level 2	Level 3	Impact of netting ¹	Total at fair value
Assets (USD million)					
Debt securities	9,738	11,439	1,145	–	22,322
of which UK government	2,561	–	–	–	2,561
of which foreign governments	7,173	914	96	–	8,183
of which corporates	4	9,973	1,003	–	10,980
of which residential mortgage backed securities	–	552	–	–	552
of which commercial mortgage backed securities	–	–	46	–	46
Equity securities	6,084	1,814	61	–	7,959
Derivatives	4,396	397,154	4,213	(100,452)	305,311
of which interest rate products	101	281,595	871	(93,056)	189,511
of which foreign exchange products	101	67,439	347	–	67,887
of which equity/index-related products	4,191	21,931	1,364	(7,396)	20,090
of which credit derivatives	–	24,580	1,631	–	26,211
of which other derivative products	3	1,609	–	–	1,612
Other	–	1,513	1,213	–	2,726
Trading financial assets at fair value through profit or loss	20,218	411,920	6,632	(100,452)	338,318
Securities purchased under resale agreements and securities borrowing transactions	–	3,243	–	(118)	3,125
Loans	–	5,928	1,727	–	7,655
of which commercial and industrial loans	–	88	1,129	–	1,217
of which loans to financial institutions	–	5,171	484	–	5,655
of which government and public institutions	–	669	64	–	733
of which real estate	–	–	50	–	50
Other financial assets designated at fair value through profit or loss	–	2,388	105	–	2,493
of which failed purchases	–	2,334	46	–	2,380
of which other	–	54	59	–	113
Financial assets designated at fair value through profit or loss	–	11,559	1,832	(118)	13,273
Total assets at fair value	20,218	423,479	8,464	(100,570)	351,591

¹ Derivative contracts/ Securities purchased under resale agreements and securities borrowing transactions are reported on a gross basis by Level. The impact of netting represents an adjustment related to counterparty netting.

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

As at 30 June 2015	Level 1	Level 2	Level 3	Impact of netting ¹	Total at fair value
Liabilities (USD million)					
Debt securities	2,571	583	–	–	3,154
of which UK government	140	–	–	–	140
of which foreign governments	2,423	531	–	–	2,954
of which corporates	8	52	–	–	60
Equity securities	1,339	369	–	–	1,708
Other securities	–	18	–	–	18
Derivatives	3,903	400,596	4,416	(96,640)	312,275
of which interest rate products	30	270,808	820	(89,051)	182,607
of which foreign exchange products	76	80,007	280	–	80,363
of which equity/index-related products	3,786	23,621	1,432	(7,589)	21,250
of which credit derivatives	–	24,479	1,884	–	26,363
of which other derivative products	11	1,681	–	–	1,692
Trading financial liabilities at fair value through profit or loss	7,813	401,566	4,416	(96,640)	317,155
Securities sold under resale agreements and securities borrowing transactions	–	9,816	–	(118)	9,698
Short term borrowings	–	1,580	167	–	1,747
Long term debt	–	14,639	3,862	–	18,501
of which structured notes between one and two years	–	709	136	–	845
of which other debt instruments between one and two years	–	147	11	–	158
of which treasury debt over two years	–	137	–	–	137
of which structured notes over two years	–	5,033	2,159	–	7,192
of which other debt instruments over two years	–	8,230	1,556	–	9,786
of which non-recourse liabilities	–	383	–	–	383
Other financial liabilities designated at fair value through profit or loss	–	553	229	–	782
of which failed sales	–	516	220	–	736
of which others	–	37	9	–	46
Financial liabilities designated at fair value through profit or loss	–	26,588	4,258	(118)	30,728
Total liabilities at fair value	7,813	428,154	8,674	(96,758)	347,883
Net assets/liabilities at fair value	12,405	(4,675)	(210)	(3,812)	3,708

¹ Derivative contracts/Securities sold under resale agreements and securities borrowing transactions are reported on a gross basis by Level. The impact of netting represents an adjustment related to counterparty netting.

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

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

¹ Derivative contracts/ Securities purchased under resale agreements and securities borrowing transactions are reported on a gross basis by Level. The impact of netting represents an adjustment related to counterparty netting.

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

As at 31 December 2014	Level 1	Level 2	Level 3	Impact of netting ¹	Total at fair value
Liabilities (USD million)					
Debt securities	3,263	2,258	111	–	5,632
of which UK government	177	2	–	–	179
of which foreign governments	3,065	1,302	111	–	4,478
of which corporates	21	954	–	–	975
Equity securities	3,219	80	–	–	3,299
Other securities	–	9	–	–	9
Derivatives	2,193	620,432	6,225	(231,901)	396,949
of which interest rate products	30	465,133	938	(226,100)	240,001
of which foreign exchange products	63	96,128	544	–	96,735
of which equity/index-related products	2,067	24,695	1,531	(5,801)	22,492
of which credit derivatives	–	27,446	3,208	–	30,654
of which other derivative products	33	7,030	4	–	7,067
Trading financial liabilities at fair value through profit or loss	8,675	622,779	6,336	(231,901)	405,889
Securities sold under resale agreements and securities borrowing transactions	–	5,620	–	(296)	5,324
Short term borrowings	–	1,730	80	–	1,810
Long term debt	–	14,556	4,769	–	19,325
of which structured notes between one and two years	–	984	107	–	1,091
of which other debt instruments between one and two years	–	168	49	–	217
of which treasury debt over two years	–	135	–	–	135
of which structured notes over two years	–	6,006	2,838	–	8,844
of which other debt instruments over two years	–	6,943	1,767	–	8,710
of which non-recourse liabilities	–	320	8	–	328
Other financial liabilities designated at fair value through profit or loss	–	657	224	–	881
of which failed sales	–	651	214	–	865
of which others	–	6	10	–	16
Financial liabilities designated at fair value through profit or loss	–	22,563	5,073	(296)	27,340
Total liabilities at fair value	8,675	645,342	11,409	(232,197)	433,229
Net assets/liabilities at fair value	13,151	3,162	216	(5,153)	11,376

¹ Derivative contracts/Securities sold under resale agreements and securities borrowing transactions are reported on a gross basis by Level. The impact of netting represents an adjustment related to counterparty netting.

Transfers between Level 1 and Level 2

The table below shows the transfers from Level 1 to Level 2 of the fair value hierarchy.

end of	30.06.15		31.12.14	
	Transfers out of Level 1 to Level 2	Transfers to Level 1 out of Level 2	Transfers out of Level 1 to Level 2	Transfers to Level 1 out of Level 2
Assets (USD million)				
Trading financial assets at fair value through profit or loss	36	2,863	538	5,466
Total transfers in assets at fair value	36	2,863	538	5,466
Liabilities (USD million)				
Trading financial liabilities at fair value through profit or loss	–	2,542	43	5,602
Total transfers in liabilities at fair value	–	2,542	43	5,602

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

The transfers from Level 2 to Level 1 are mainly driven by the transfer of exchange traded options as they moved closer to

maturity and inputs became observable. All transfers were reported at the end of the reporting period.

Movements of Level 3 instruments

The following table presents a reconciliation of financial instruments categorised in level 3 of the fair value hierarchy.

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

As at 30 June 2015	Balance at beginning of period	Transfers in	Transfers out	Purchases	Sales	Issuances	Settlements	On transfers in/out ¹	Trading revenues On all other	Balance at end of period
Assets at fair value (USD million)										
Debt securities	1,067	84	(36)	628	(687)	-	-	(4)	93	1,145
of which foreign governments	178	26	(5)	15	(103)	-	-	-	(15)	96
of which corporates	811	58	(31)	613	(584)	-	-	(4)	140	1,003
of which commercial mortgage backed securities	78	-	-	-	-	-	-	-	(32)	46
of which collateral debt obligations	-	-	-	-	-	-	-	-	-	-
Equity securities	94	-	-	86	(122)	-	-	-	3	61
Derivatives	6,211	898	(853)	-	-	2,263	(2,678)	(45)	(1,583)	4,213
of which interest rate products	1,662	9	(275)	-	-	306	(358)	(20)	(453)	871
of which foreign exchange products	283	5	(25)	-	-	9	(177)	6	246	347
of which equity/index-related products	1,329	61	(133)	-	-	1,738	(528)	8	(1,111)	1,364
of which credit derivatives	2,936	823	(419)	-	-	210	(1,615)	(39)	(265)	1,631
of which other derivative products	1	-	(1)	-	-	-	-	-	-	-
Other	1,273	510	(256)	334	(604)	-	(80)	11	25	1,213
Trading financial assets at fair value through profit or loss	8,645	1,492	(1,145)	1,048	(1,413)	2,263	(2,758)	(38)	(1,462)	6,632
Securities purchased under resale agreements and securities borrowing transactions	-	-	-	-	-	-	-	-	-	-
Loans	2,754	163	(227)	1	(340)	481	(1,127)	(7)	29	1,727
of which commercial and industrial loans	1,193	87	-	-	(25)	88	(250)	-	36	1,129
of which loans to financial institutions	788	76	(60)	-	(10)	180	(481)	(7)	(2)	484
of which government and public institutions	562	-	(167)	-	(305)	213	(234)	-	(5)	64
of which real estate	211	-	-	1	-	-	(162)	-	-	50
Other financial assets designated at fair value through profit or loss	226	-	-	8	(84)	-	-	-	(45)	105
of which failed purchases	174	-	-	(6)	(77)	-	-	-	(45)	46
of which other	52	-	-	14	(7)	-	-	-	-	59
Financial assets designated at fair value through profit or loss	2,980	163	(227)	9	(424)	481	(1,127)	(7)	(16)	1,832
Total assets at fair value	11,625	1,655	(1,372)	1,057	(1,837)	2,744	(3,885)	(45)	(1,478)	8,464

¹ For all transfers to Level 3 or out of Level 3, the CSi group determines and discloses as Level 3 events only gains or losses through the last day of the reporting period.

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

As at 30 June 2015	Balance at beginning of period	Transfers in	Transfers out	Purchases	Sales	Issuances	Settlements	On transfers in/out ¹	Trading revenues On all other	Balance at end of period
Liabilities at fair value (USD million)										
Debt securities	111	-	-	-	(111)	-	-	-	-	-
of which foreign governments	111	-	-	-	(111)	-	-	-	-	-
Derivatives	6,225	1,009	(919)	-	-	506	(2,875)	7	463	4,416
of which interest rate products	938	8	(213)	-	-	237	(110)	(7)	(33)	820
of which foreign exchange products	544	-	-	-	-	3	(46)	-	(221)	280
of which equity/index-related products	1,531	89	(296)	-	-	75	(988)	43	978	1,432
of which credit derivatives	3,208	911	(406)	-	-	191	(1,730)	(30)	(260)	1,884
of which other derivative products	4	1	(4)	-	-	-	(1)	1	(1)	-
Trading financial liabilities at fair value through profit or loss	6,336	1,009	(919)	-	(111)	506	(2,875)	7	463	4,416
Securities sold under repurchase agreement and securities lending transactions	-	-	-	-	-	-	-	-	-	-
Short term borrowings	80	18	(11)	-	-	148	(80)	-	12	167
Long term debt	4,769	15	(140)	97	-	529	(1,481)	(3)	76	3,862
of which structured notes between one and two years	107	3	(37)	-	-	108	(38)	(1)	(6)	136
of which other debt instruments between one and two years	49	-	-	-	-	-	(40)	-	2	11
of which structured notes over two years	2,838	-	(53)	97	-	264	(923)	-	(64)	2,159
of which other debt instruments over two years	1,767	12	(43)	-	-	157	(480)	(1)	144	1,556
of which non-recourse liabilities	8	-	(7)	-	-	-	-	(1)	-	-
Other financial liabilities designated at fair value through profit or loss	224	8	(5)	8	(29)	31	-	2	(10)	229
of which failed sales	214	4	(4)	7	(21)	30	-	2	(12)	220
of which others	10	4	(1)	1	(8)	1	-	-	2	9
Financial liabilities designated at fair value through profit or loss	5,073	41	(156)	105	(29)	708	(1,561)	(1)	78	4,258
Total liabilities at fair value	11,409	1,050	(1,075)	105	(140)	1,214	(4,436)	6	541	8,674
Net assets/liabilities at fair value	216	605	(297)	952	(1,697)	1,530	551	(51)	(2,019)	(210)

¹ For all transfers to Level 3 or out of Level 3, the CSI group determines and discloses as Level 3 events only gains or losses through the last day of the reporting period.

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

As at 31 December 2014	Balance at beginning of period	Transfers in	Transfers out	Purchases	Sales	Issuances	Settlements	On transfers in/out ¹	Trading revenues On all other	Balance at end of period
Assets at fair value (USD million)										
Debt securities	1,562	253	(487)	930	(1,485)	-	-	1	293	1,067
of which foreign governments	256	27	(249)	173	(29)	-	-	4	(4)	178
of which corporates	1,187	226	(238)	757	(1,451)	-	-	(3)	333	811
of which commercial mortgage backed securities	119	-	-	-	(5)	-	-	-	(36)	78
of which collateral debt obligations	-	-	-	-	-	-	-	-	-	-
Equity securities	131	10	(15)	169	(180)	-	-	2	(23)	94
Derivatives	5,103	2,268	(1,719)	-	-	4,233	(3,210)	121	(585)	6,211
of which interest rate products	1,559	80	(535)	-	-	711	(701)	13	535	1,662
of which foreign exchange products	480	25	(40)	-	-	726	(1,035)	4	123	283
of which equity/index-related products	1,524	137	(545)	-	-	2,021	(331)	146	(1,623)	1,329
of which credit derivatives	1,530	2,022	(586)	-	-	612	(1,039)	(44)	441	2,936
of which other derivative products	10	4	(13)	-	-	163	(104)	2	(61)	1
Other	970	585	(642)	1,322	(619)	-	(358)	6	9	1,273
Trading financial assets at fair value through profit or loss	7,766	3,116	(2,863)	2,421	(2,284)	4,233	(3,568)	130	(306)	8,645
Securities purchased under resale agreements and securities borrowing transactions	152	-	(93)	-	-	-	(59)	-	-	-
Loans	4,431	8	(12)	969	(1,675)	286	(907)	8	(354)	2,754
of which commercial and industrial loans	1,356	-	(1)	632	(573)	47	(236)	6	(38)	1,193
of which loans to financial institutions	1,978	8	(11)	58	(650)	237	(544)	2	(290)	788
of which government and public institutions	1,097	-	-	35	(451)	-	(118)	-	(1)	562
of which real estate	-	-	-	244	(1)	2	(9)	-	(25)	211
Other financial assets designated at fair value through profit or loss	153	-	(48)	252	(134)	-	-	2	1	226
of which failed purchases	90	-	(48)	164	(47)	-	-	2	13	174
of which other	63	-	-	88	(87)	-	-	-	(12)	52
Financial assets designated at fair value through profit or loss	4,736	8	(153)	1,221	(1,809)	286	(966)	10	(353)	2,980
Total assets at fair value	12,502	3,124	(3,016)	3,642	(4,093)	4,519	(4,534)	140	(659)	11,625

¹ For all transfers to Level 3 or out of Level 3, the CSi group determines and discloses as Level 3 events only gains or losses through the last day of the reporting period.

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

As at 31 December 2014	Balance at beginning of period	Transfers in	Transfers out	Purchases	Sales	Issuances	Settlements	On transfers in/out ¹	Trading revenues On all other	Balance at end of period
Liabilities at fair value (USD million)										
Debt securities	–	–	–	128	(14)	–	–	–	(3)	111
of which corporates	–	–	–	17	(14)	–	–	–	(3)	–
of which foreign governments	–	–	–	111	–	–	–	–	–	111
Derivatives	5,887	2,263	(1,546)	–	–	1,396	(3,018)	158	1,085	6,225
of which interest rate products	1,028	49	(107)	–	–	70	(697)	3	592	938
of which foreign exchange products	1,039	4	(3)	–	–	5	(260)	(4)	(237)	544
of which equity/index-related products	2,093	194	(787)	–	–	649	(1,100)	183	299	1,531
of which credit derivatives	1,688	2,016	(638)	–	–	616	(896)	(19)	441	3,208
of which other derivative products	39	–	(11)	–	–	56	(65)	(5)	(10)	4
Trading financial liabilities at fair value through profit or loss	5,887	2,263	(1,546)	128	(14)	1,396	(3,018)	158	1,082	6,336
Securities sold under repurchase agreement and securities lending transactions	129	–	(67)	–	–	–	(62)	–	–	–
Short term borrowings	218	65	(63)	7	–	304	(449)	(4)	2	80
Long term debt	4,759	65	(657)	–	(28)	2,545	(2,064)	(14)	163	4,769
of which structured notes between one and two years	283	61	(142)	–	(28)	205	(303)	(2)	33	107
of which other debt instruments between one and two years	28	–	(15)	–	–	149	(143)	–	30	49
of which structured notes over two years	3,146	–	(314)	–	–	1,193	(1,022)	(9)	(156)	2,838
of which other debt instruments over two years	1,302	4	(186)	–	–	980	(590)	(3)	260	1,767
of which non-recourse liabilities	–	–	–	–	–	18	(6)	–	(4)	8
Other financial liabilities designated at fair value through profit or loss	359	83	(56)	105	(204)	–	–	(1)	(62)	224
of which failed sales	333	77	(50)	23	(109)	–	–	–	(60)	214
Financial liabilities designated at fair value through profit or loss	5,465	213	(843)	112	(232)	2,849	(2,575)	(19)	103	5,073
Total liabilities at fair value	11,352	2,476	(2,389)	240	(246)	4,245	(5,593)	139	1,185	11,409
Net assets/liabilities at fair value	1,150	648	(627)	3,402	(3,847)	274	1,059	1	(1,844)	216

¹ For all transfers to Level 3 or out of Level 3, the CSI group determines and discloses as Level 3 events only gains or losses through the last day of the reporting period.

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

	30.06.15	31.12.14
Trading revenues (USD million)		
Net realised/unrealised (losses)/gains included in net revenues	(2,070)	(1,843)
Whereof:		
Changes in unrealised (losses)/gains relating to assets and liabilities still held as of the reporting date		
Trading financial assets at fair value through profit or loss	234	(214)
Financial assets designated at fair value through profit or loss	24	(11)
Trading financial liabilities at fair value through profit or loss	(572)	(1,358)
Financial liabilities designated at fair value through profit or loss	(38)	(254)
Total changes in designated unrealised gains/(losses) relating to assets and liabilities still held as of the reporting date	(352)	(1,837)

Transfers in and out of Level 3

Trading financial assets at fair value through profit or loss

Trading financial assets transferred into and out of Level 3 as at 30 June 2015 amounted to USD 1,492 million and USD (1,145) million, respectively. USD 1,333 million of transfers into Level 3 were related to credit derivatives and loans. Transfers out of Level 3 largely comprised of equity/ index-related derivatives, interest rate derivatives and credit derivatives.

Trading financial assets transferred into and out of Level 3 in 2014 amounted to USD 3,116 million and USD (2,863) million, respectively. USD 2,607 million of transfers into Level 3 were related to credit derivatives and loans. Transfers out of Level 3 mainly comprised of debt securities, credit derivatives, interest rate derivatives, equity/index-related derivatives and loans. Transfers in and out of Level 3 are due to reduced or improved observability of pricing data.

Financial assets designated at fair value through profit or loss

Financial assets designated at fair value through profit or loss transferred in and out of Level 3 as at 30 June 2015 amounted to USD 163 million and USD (227) million, respectively. These transfers were mainly related to loans.

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

Trading financial liabilities at fair value through profit or loss

Trading financial liabilities transferred into and out of Level 3 as at 30 June 2015 amounted to USD 1,009 million and USD (919) million, respectively. USD 911 million of transfers into Level 3 were related to credit derivatives. Transfers out of Level 3 largely comprised of equity/index-related derivatives, interest rate derivatives and credit derivatives.

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

Financial liabilities designated at fair value through profit or loss

Financial liabilities designated at fair value through profit or loss transferred into and out of Level 3 as at 30 June 2015 amounted to USD 41 million and USD (156) million, respectively. The transfers into Level 3 were related to short term borrowings and other debt. The transfers out of Level 3 were largely related to structured notes.

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

Qualitative disclosures of valuation techniques

The CSi group has implemented and maintains a valuation control framework, which is supported by policies and procedures that define the principles for controlling the valuation of the CSi group's financial instruments. Product Control and Risk Management create, review and approve significant valuation policies and procedures. The framework includes three main internal processes: (i) valuation governance; (ii) independent price verification and significant unobservable inputs review; and (iii) a cross-functional pricing model review. Through this framework, the CSi group determines the reasonableness of the fair value of its financial instruments.

On a monthly basis, meetings are held for each business line with senior representatives of the Front Office and Product Control to discuss independent price verification results, valuation adjustments, and other significant valuation issues. On a quarterly basis, a review of significant changes in the fair value of financial instruments is undertaken by Product Control and conclusions are reached regarding the reasonableness of those changes. Additionally, on a quarterly basis, meetings are held for each business line with senior representatives of the Front Office, Product Control, Risk Management, and Group Finance to discuss independent price verification results, valuation issues, business and market updates, as well as a review of significant changes in fair value from the prior quarter, significant unobservable inputs and prices used in valuation techniques, and valuation adjustments.

The results of these meetings are aggregated for presentation to the Valuation and Risk Management Committee ('VARMC') and the Audit Committee. The VARMC, which is comprised of CSG Executive Board members and the heads of the business and control functions, meets to review and ratify valuation review conclusions, and to resolve significant valuation issues for the CSi group. VARMC includes a formal CSi voting sub-committee comprising the CSi CEO, CFO and CRO, who ratify decisions relevant to the entity. Oversight of the valuation control framework is through specific and regular reporting on valuation directly to the CSG Executive Board and CSi Board through the VARMC.

One of the key components of the governance process is the segregation of duties between the Front Office and Product Control. The Front Office is responsible for measuring inventory at fair value on a daily basis, while Product Control is responsible for independently reviewing and validating those valuations on a periodic basis. The Front Office values the inventory using, wherever possible, observable market data which may include executed transactions, dealer quotes, or broker quotes for the same or similar instruments. Product Control validates this inventory using independently sourced data that also includes executed transactions, dealer quotes, and broker quotes.

Product Control utilises independent pricing service data as part of their review process. Independent pricing service data is analysed to ensure that it is representative of fair value including confirming that the data corresponds to executed transactions or executable broker quotes, review and assessment of contributors to ensure they are active market participants, review of statistical data and utilisation of pricing challenges. The analysis also includes understanding the sources of the pricing service data and any models or assumptions used in determining the results. The purpose of the review is to judge the quality and reliability of the

data for fair value measurement purposes and its appropriate level of usage within the Product Control independent valuation review.

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

The CSi group performs a sensitivity analysis of its significant level 3 financial instruments. This sensitivity analysis estimates a fair value range by changing the related significant unobservable inputs value. Where a model-based technique is used to determine the fair value of the level 3 financial instrument, an alternative input value is utilised to derive an estimated fair value range. Where a price-based technique is used to determine the fair value of the level 3 financial instrument, Front Office professional judgment is used to estimate a fair value range.

The following information on the valuation techniques and significant unobservable inputs of the various financial instruments, and the sensitivity of fair value measurements to changes in significant unobservable inputs, should be read in conjunction with the table "Quantitative disclosures of valuation techniques".

Securities purchased/sold under resale/repurchase agreements and securities borrowing/lending transactions

Securities purchased under resale agreements and securities sold under repurchase agreements are measured at fair value using discounted cash flow analysis. Future cash flows are discounted using observable market interest rate repurchase/resale curves for the applicable maturity and underlying collateral of the instruments. As such, the significant majority of both securities purchased under resale agreements and securities sold under repurchase agreements are included in Level 2 of the fair value hierarchy. Structured resale and repurchase agreements include embedded derivatives, which are measured using the same techniques as described below for stand-alone derivative contracts held for trading purposes or used in hedge accounting relationships.

Securities purchased under resale agreements are usually fully collateralised or over collateralised by government securities, money market instruments, corporate bonds or other debt instruments. In the event of counterparty default, the collateral service agreement provides the Group with the right to liquidate the collateral held.

The CSi group enters into transactions involving securities borrowed and securities loaned transactions as part of the CSi group's matched-book activities to accommodate clients, finance the CSi group's trading inventory, obtain securities for settlement and earn interest spreads.

Debt securities

Foreign governments and corporates

Government debt securities typically have quoted prices in active markets and are categorised as level 1 instruments. For debt securities for which market prices are not available, valuations are based on yields reflecting credit rating, historical performance, delinquencies, loss severity, the maturity of the security, recent transactions in the market or other modeling techniques, which may involve judgment. Those securities where the significant price or model inputs are observable in the market are categorised as level 2 instruments, while those securities where prices are not observable and significant model inputs are unobservable are categorised as level 3 of the fair value hierarchy.

Corporate bonds are priced to reflect current market levels either through recent market transactions or broker or dealer quotes. Where a market price for the particular security is not directly available, valuations are obtained based on yields reflected by other instruments in the specific or similar entity's capital structure and adjusting for differences in seniority and maturity, benchmarking to a comparable security where market data is available (taking into consideration differences in credit, liquidity and maturity), or through the application of cash flow modeling techniques utilising observable inputs, such as current interest rate curves and observable CDS spreads. Significant unobservable inputs may include market comparable price, buyback probability, correlation, volatility and credit spread. For securities using market comparable price, the differentiation between level 2 and level 3 is based upon the relative significance of any yield adjustments as well as the accuracy of the comparison characteristics (i.e. the observable comparable security may be in the same country but a different industry and may have a different seniority level – the lower the comparability the more likely the security will be level 3). Generally, the interrelationship between volatility and correlation is positively correlated.

CMBS securities

Fair values of CMBS may be available through quoted prices, which are often based on the prices at which similarly structured and collateralised securities trade between dealers and to and from customers. Fair values of CMBS for which there are significant unobservable inputs are valued using capitalisation rate. Price may not be observable for fair value measurement purposes for many reasons, such as the length of time since the last executed transaction for the related security, use of a price from a similar instrument, or use of a price from an indicative quote. Prices from similar observable instruments are used to calculate implied inputs which are then used to value unobservable instruments using discounted cash flow. The discounted cash flow price is then compared to the unobservable prices and assessed for reasonableness.

Equity securities

The majority of the CSi group's positions in equity securities are traded on public stock exchanges for which quoted prices are readily and regularly available and are therefore categorised as level 1 instruments. Level 2 and level 3 equities include fund-linked products, convertible bonds or equity securities with

restrictions that are not traded in active markets. Significant unobservable inputs may include earnings before interest, taxes, depreciation and amortisation, ('EBITDA') multiple, discount rate and capitalisation rate.

Derivatives

Derivatives held for trading purposes or used in hedge accounting relationships include both OTC and exchange-traded derivatives. The fair values of exchange-traded derivatives measured using observable exchange prices are included in level 1 of the fair value hierarchy. For exchange-traded derivatives where the market is not considered active, the observable exchange prices may not be considered executable at the reporting date. These derivatives are valued in the same manner as similar observable OTC derivatives and are included in level 2 of the fair value hierarchy. If the similar OTC derivative used for valuing the exchange-traded derivative is not observable, then the exchange-traded derivative is included in level 3 of the fair value hierarchy.

The fair values of OTC derivatives are determined on the basis of either industry standard models or internally developed proprietary models. Both model types use various observable and unobservable inputs in order to determine fair value. The inputs include those characteristics of the derivative that have a bearing on the economics of the instrument. The determination of the fair value of many derivatives involves only a limited degree of subjectivity because the required inputs are observable in the market place, while more complex derivatives may use unobservable inputs that rely on specific proprietary modeling assumptions. Where observable inputs (prices from exchanges, dealers, brokers or market consensus data providers) are not available, attempts are made to infer values from observable prices through model calibration (spot and forward rates, mean reversion, benchmark interest rate curves and volatility inputs for commonly traded option products). For inputs that cannot be derived from other sources, estimates from historical data may be made. OTC derivatives where the majority of the value is derived from market observable inputs are categorised as level 2 instruments, while those where the majority of the value is derived from unobservable inputs are categorised as level 3 of the fair value hierarchy.

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

Interest rate derivatives

OTC vanilla interest rate products, such as interest rate swaps, swaptions, and caps and floors are valued by discounting the anticipated future cash flows. The future cash flows and discounting are derived from market standard yield curves and industry standard volatility inputs. Where applicable, exchange-traded prices are also used to value exchange-traded futures and options and can be used in yield curve construction. For more complex products inputs include, but are not limited to, correlation, volatility skew, prepayment rate, credit spread, basis spread, recovery rate and mean reversion.

Foreign exchange derivatives

Foreign exchange derivatives include vanilla products such as spot, forward and option contracts where the anticipated discounted

future cash flows are determined from foreign exchange forward curves and industry standard optionality modeling techniques. Where applicable, exchange-traded prices are also used for futures and option prices. For more complex products inputs include, but are not limited to, prepayment rate, correlation, volatility skew and credit spread.

Equity and index-related derivatives

Equity derivatives include vanilla options and swaps in addition to different types of exotic options. Inputs for equity derivatives can include market comparable price, correlation, volatility, skew and buyback probability. Generally, volatility, forward skew, correlation and gap risk are positively correlated.

Credit derivatives

Credit derivatives include index and single name CDSs in addition to more complex structured credit products. Vanilla products are valued using industry standard models and inputs that are generally market observable including credit spread and recovery rate.

Complex structured credit derivatives are valued using proprietary models requiring unobservable inputs such as recovery rate, credit spread, correlation, funding spread, discount rate, default rate and prepayment rate. These inputs are generally implied from available market observable data. Fair values determined by price may include discounted cash flow models using the inputs default rate, loss severity and discount rate.

Other trading assets

Other trading assets primarily include loans and receivables which are valued using market comparable price and discounted cash flow. The significant unobservable inputs of the fair value loans and receivables is credit spread and price.

Other financial assets designated at fair value through profit or loss

Loans

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

Both the funded and unfunded portion of revolving credit lines on the corporate lending portfolio are valued using a CDS pricing model, which requires estimates of significant inputs including credit spreads, recovery rates, credit conversion factors, and

weighted average life of the loan. Significant unobservable inputs may include credit spread and market comparable price.

Short-term borrowings and long-term debt

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

Other financial liabilities designated at fair value through profit or loss

Failed sales

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

Short-term financial instruments

Certain short-term financial instruments are not carried at fair value on the statement of financial position, but a fair value has

been disclosed in the table "Financial assets and liabilities by categories". These instruments include: cash and due from banks deposits, cash collateral receivables and payables and other receivables and payables arising in the ordinary course of business. For these financial instruments, the carrying value approximates the fair value due to the relatively short period of time between their origination and expected realisation, as well as the minimal credit risk inherent in these instruments.

Sensitivity of fair value measurements to changes in significant unobservable inputs

For level 3 assets with a significant unobservable input of buyback probability, correlation, price, volatility, volatility skew and discount rate in general, an increase in the significant unobservable input would increase the fair value. For level 3 assets instruments with a significant unobservable input of funding spread, capitalisation rate, prepayment rate and credit spread, in general, an increase in the significant unobservable input would decrease the fair value.

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

Interrelationships between significant unobservable inputs

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

Quantitative disclosures of valuation techniques

The following tables provide the representative range of minimum and maximum values and the associated weighted average of each significant unobservable input for level 3 assets and liabilities by the related valuation technique most significant to the related financial instrument.

As at 30 June 2015 USD million, except as indicated	Fair Value	Valuation technique	Unobservable input	Minimum value	Maximum value	Weighted average
Assets at fair value						
Debt securities	1,145					
of which corporates	1,002					
of which	524	Option model	Correlation in %	(88)	97	16
			Volatility in %	2	237	27
of which	240	Discounted cash flow	Credit spread in bp	16	700	590
of which	235	Market comparable	Price in %	–	120	98
of which CMBS	46	Discounted cash flow	Capitalisation rate in %	7	8	7
Derivatives	4,213					
of which interest rate products	923					
of which	923	Option model	Correlation in %	17	100	54
			Prepayment rate in %	1	30	15
			Credit spread in bp	158	2,063	366
			Volatility skew in %	(9)	31	(4)
of which foreign exchange products	280					
of which	190	Option model	Correlation in %	(13)	93	20
			Prepayment rate in %	23	30	26
			Volatility in %	(9)	31	3
of which	90	Discounted cash flow	Credit spread in bp	175	1,325	389
of which equity/index-related products	1,368					
of which	1,368	Option model	Correlation in %	(88)	97	16
			Volatility in %	2	237	27
			Buyback probability in %	50	100	59
of which credit derivatives	1,350					
of which	1,350	Discounted cash flow	Correlation in %	13	97	70
			Credit spread in bp	1	22,911	9,670
			Recovery rate in %	–	58	27
			Discount rate in %	1	47	20
			Default rate in %	–	45	6
			Funding spread in bps	10	100	64
			Loss severity in %	51	125	68
Other	1,213					
of which trading loans	1,155					
of which	65	Discounted cash flow	Credit spread in bp	42	473	179
of which	1,090	Market comparable	Price in %	–	103	72
Loans	1,727					
of which commercial and industrial loans	993					
of which	993	Discounted cash flow	Credit spread in bp	70	1,380	322
of which loans to financial institutions	408					
of which	408	Discounted cash flow	Credit spread in bp	199	464	317
of which government and public institutions	64					
of which	64	Discounted cash flow	Credit spread in bp	61	515	442

Notes to the Condensed Consolidated Interim Financial Statements for the Six Months Ended 30 June 2015 (Unaudited)

As at 30 June 2015 USD million, except as indicated	Fair Value	Valuation technique	Unobservable input	Minimum value	Maximum value	Weighted average
Liabilities at fair value (USD million)						
Derivatives	4,416					
of which interest rate products	583					
of which	583	Option model	Basis spread, in bp	(9)	84	48
			Correlation, in %	17	100	76
			Prepayment rate, in %	1	30	9
			Credit spread, in bp	84	2,100	476
			Volatility skew in %	(9)	31	(4)
			Mean reversion, in %	5	5	5
of which foreign exchange products	277					
of which	276	Option model	Correlation, in %	(10)	70	54
			Prepayment rate, in %	23	30	26
			Volatility skew, in %	(9)	1	(4)
of which	1	Discounted cash flow	Credit spread, in bp	324	1,325	492
of which equity/index-related products	1,379					
of which	1,354	Option model	Correlation, in %	(88)	97	16
			Volatility, in %	1	237	26
			Buyback probability in %	50	100	59
			Skew in %	42	208	116
of which credit derivatives	1,651					
of which	1,651	Discounted cash flow	Correlation, in %	85	97	95
			Credit spread, in bp	1	22,911	6,085
			Recovery rate, in %	–	60	35
			Discount rate, in %	1	47	19
			Funding spread in bps	51	125	68
			Default rate, in %	–	45	6
			Loss severity, in %	10	100	64
Other Financial Liabilities	229					
of which failed sales	220	Discounted cash flow	Credit spread, in bp	289	515	292
		Market comparable	Price in %	2	100	6
Long term debt	3,862					
of which structured notes over two years	1,880					
of which	1,860	Option model	Correlation, in %	(88)	99	19
			Volatility, in %	2	237	29
			Gap risk, in %	–	4	1
			Buyback probability, in %	50	100	59
of which	20	Discounted cash flow	Credit spread, in bp	277	1,040	761
of which other debt over two years	401					
of which	401	Option model	Volatility, in %	2	237	28
			Buyback probability, in %	50	100	59
			Gap risk, in %	0	4	1
of which structured notes between one and two years	84					
of which	66	Option model	Correlation, in %	(88)	97	16
			Volatility, in %	2	237	28

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

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

Qualitative discussion of the ranges of significant unobservable inputs

The following sections provide further information about the ranges of significant unobservable inputs included in the tables above. The level of aggregation and diversity within the financial instruments disclosed in the tables above result in certain ranges of significant inputs being wide and unevenly distributed across asset and liability categories.

Discount rate

The discount rate is the rate of interest used to calculate the present value of the expected cash flows of a financial instrument.

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

Default rate and loss severity

For financial instruments backed by residential real estate or other assets, diversity in the portfolio is reflected in a wide range for loss severity due to varying levels of default. The lower end of the range represents high performing or government guaranteed

collateral with a low probability of default or guaranteed timely payment of principal and interest while the higher end of the range relates to collateral with a greater risk of default.

Credit spread and recovery rate

For financial instruments where credit spread is the significant unobservable input, the wide range represents positions with varying levels of risk. The lower end of the credit spread range typically represents shorter-dated instruments and/or those with better perceived credit risk. The higher end of the range typically comprises longer-dated financial instruments or those referencing non-performing, distressed or impaired reference credits. Similarly, the spread between the reference credit and an index can vary significantly based on the risk of the instrument. The spread will be positive for instruments that have a higher risk of default than the index (which is based on a weighted average of its components) and negative for instruments that have a lower risk of default than the index.

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

Correlation

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

Prepayment rate

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

Volatility and skew

Volatility and skew are impacted by the underlying risk, term and strike price of the derivative. In the case of interest rate derivatives, volatility rates may vary significantly between different

underlying currencies and expiration dates on the options. Similarly, equity derivatives' volatility may vary greatly depending upon the underlying reference name on the derivative.

Price

Bond equivalent price is a primary significant unobservable input for bonds and loans. Where market prices are not available for an instrument, benchmarking may be utilised to identify comparable issues (same industry and similar product mixes) while adjustments are considered for differences in deal terms and performance.

Buyback probability

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

Gap Risk

Gap risk is the primary significant unobservable input for fund linked CPPI and represents the idea that prices will change from one level to another with no trading in between. Pricing sources are considered as a reference floor only because most of the contributors are no longer active in the market.

Mean Reversion

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

Funding Spread

Funding spread is the primary significant unobservable input for SPV funding facilities. Synthetic funding curves which represent the assets pledged as collateral are used to value structured financing transactions. The curves provide an estimate of where secured funding can be sourced and are expressed as a basis point spread in relation to the referenced benchmark rate.

Capitalisation Rate

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

Sensitivity analysis of unobservable input parameters

The fair value of certain financial instruments recognised in the consolidated financial statements is dependent in part or fully upon unobservable parameters which may include market inputs, prices or other data. The following table summarises the sensitivity of these financial instruments to reasonable changes in the assumptions underlying these parameters:

	Reflected in net income/(loss)	
	Favourable changes	Unfavourable changes
As at 30 June 2015 (USD million)		
Derivative assets and liabilities	281	(291)
Assets-backed securities, loans and derivatives	42	(43)
Debt and equity securities	65	(36)
Loans	40	(43)
Total	428	(413)
As at 31 December 2014 (USD million)		
Derivative assets and liabilities	460	(436)
Assets-backed securities, loans and derivatives	68	(65)
Debt and equity securities	92	(47)
Loans	89	(70)
Total	709	(618)

When the fair value of an instrument has multiple unobservable inputs, there is assumed to be no correlation between those inputs, as such the total sensitivity reflected in the table may be larger than if correlation had been included in the analysis. The analysis also ignores any correlation between the different categories of financial instruments listed in the table.

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

Asset backed securities, loans and derivatives include CMBS, ABS CDO and balance guaranteed swap positions. CMBS sensitivities are calculated by subjecting the prices of the positions to a 5% movement up and down. ABS CDO positions were subjected to sensitivities to underlying asset prices, as well as recovery rates on the underlying assets. The underlying asset prices were subjected to a range of downward movements with no movement up. Balance guaranteed swap positions were subjected to sensitivities on prepayment speeds which were estimated based on

management's assessment of fast/slow notional bands for movements up and down.

Debt and equity securities include equity fund linked products, variable funding notes and corporate and emerging market bonds. The primary parameters subjected to sensitivity analysis for equity fund linked products and variable funding notes include price, gap risk and secondary market reserves. Price sensitivity is generally estimated based on a +/- bump in the price of the underlying security. Gap risk sensitivity is estimated by using limited pricing service information and valuing to the conservative side of the range of values. The parameter subjected to sensitivity for emerging market positions is price.

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

Recognition of trade date profit

If there are significant unobservable inputs used in the valuation technique, the financial instrument is recognised at the transaction price and any profit implied from the valuation technique at trade date is deferred over the period fair value is expected to become observable.

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

	30.06.15	31.12.14
Deferred trade date profit (USD million)		
Balance at the beginning of period	372	383
Increase due to new trades	123	162
Reduction due to passage of time	(113)	(100)
Reduction due to redemption, sales, transfers or improved observability	(25)	(73)
Balance at the end of period	357	372

21 Financial Instruments Risk Position

The CS group, of which the CSi group is a part, manages its risks under global policies. The CS group risk management process is designed to ensure that there are sufficient controls to measure, monitor and control risks in accordance with CS group's control framework and in consideration of industry best practices. The primary responsibility for risk management lies with CS group's senior business line managers. They are held accountable for all risks associated with their businesses, including counterparty risk, market risk, liquidity risk, operational risk, legal risk and reputation risk.

There have been no material changes in the risk management policies since the year ended 31 December 2014.

Development of trading portfolio risks

The table below shows the trading related market risk exposure for the CSi group, as measured by ten-day 99% Value at Risk ('VaR'). The VaR in the table has been calculated using a three-year historical dataset. VaR estimates are computed separately for each risk type and for the whole portfolio using the historical simulation methodology. The diversification benefit reflects the net difference between the sum of the 99th percentile loss for each individual risk type and for the total portfolio.

Ten-day, 99% VaR – trading portfolios

	Interest rate and credit spread	Foreign exchange	Commodity	Equity	Diversifi- cation benefit ¹	Total
30 June 2015 (USD million)						
Average	41	22	5	18	(47)	39
Minimum	34	5	1	11	- ²	27
Maximum	52	75	11	53	- ²	71
End of period	41	6	5	17	(30)	39
31 December 2014 (USD million)						
Average	62	18	6	23	(65)	44
Minimum	31	6	1	12	- ²	31
Maximum	140	14	14	43	- ²	69
End of period	40	16	1	23	(32)	48

¹ VaR estimates are calculated separately for each risk type and for the whole portfolio using the historical simulation methodology.

Diversification benefit reflects the net difference between the sum of the 99% percentile loss.

² As the minimum and maximum occur on different days for different risk types, it is not meaningful to calculate a portfolio diversification benefit.

VaR results

The Bank's ten-day, 99% regulatory VaR as of 30 June 2015 was USD 39 million (31 December 2014: USD 48 million).

Various techniques are used to assess the accuracy of the VaR model used for trading portfolios, including back testing. In line with industry practice, the Bank presents back testing using actual daily trading revenues. Actual daily trading revenues are compared with VaR calculated using a one-day holding period. A back testing exception occurs when the daily loss exceeds the daily VaR estimate.

Interest rate sensitivity position in the non-trading portfolio

Interest rate risk on non-trading positions is shown below using sensitivity analysis that estimates the potential change in value resulting from defined changes in interest rate yield curves. The impact of a one-basis-point parallel increase in yield curves on the fair value of interest rate-sensitive non-trading book positions would have been an increase of USD 1.6 million as of 30 June 2015 compared to USD 1.6 million as of 31 December 2014. Non-trading interest rate risk is assessed using other measures including the potential value change resulting from a significant change in yield curves. As of 30 June 2015, the fair value impacts

of 200-basis-point move in yield curves (December 2014 results floored at zero where appropriate) was:

+200bps increase of USD 286 million (31 December 2014: increase of USD 291 million)

-200bps decrease of USD 363 million (31 December 2014: decrease of USD 191 million)

The fair value impact of a statistical one-year, 99% adverse change in yield curves was a decrease of USD 176 million (31 December 2014: USD 184 million). Both measures are significantly below the 20% threshold used by regulators to identify firms that potentially run excessive levels of non-trading interest rate risk.

Net Counterparty Exposure before Collateral by Internal Rating

	30.06.15		31.12.14	
	USD million	%	USD million	%
Bank				
AAA	2,675	4	3,405	5
AA+ to AA-	14,443	22	15,757	21
A+ to A-	22,783	34	22,770	31
BBB+ to BBB-	14,255	22	16,208	22
BB+ to BB-	7,341	11	9,262	13
B+ and below	4,843	7	6,108	8
	66,340	100	73,510	100

Net Unsecured Exposure by Internal Rating (including provisions)

	30.06.15		31.12.14	
	USD million	%	USD million	%
Bank				
AAA	1,518	5	3,237	10
AA+ to AA-	9,025	29	10,007	30
A+ to A-	11,567	37	11,241	34
BBB+ to BBB-	5,150	17	4,286	13
BB+ to BB-	982	3	966	3
B+ and below	2,763	9	3,216	10
	31,005	100	32,953	100

22 Subsequent events

In the UK budget announcement of 8 July 2015, the UK government announced its intention to reduce the UK corporation tax rate to 19% from 2017 and 18% from 2020 and to introduce an 8% supplementary surcharge on bank profits from 1 January 2016. These tax rate reductions and surcharge are expected to be substantively enacted in 2015. The deferred tax asset at 30 June 2015 has been calculated based on the rate of 20% enacted at the Statement of Financial Position date.

US Antitrust Class Action re CDS: Certain Credit Suisse entities, as well as other banks, have been named in civil litigation in

the US, currently pending in the US District Court for the Southern District of New York. In August 2015 a settlement in principle was reached with the class action plaintiffs to settle the action. The settlement is subject to the execution of formal settlement documentation and court approval. The Bank has fully provided for its expected share of the settlement. Further, Credit Suisse (USA), Inc. has received civil investigative demands from the United States Department of Justice.

Independent Review Report to Credit Suisse International

Introduction

We have been engaged by Credit Suisse International (the “Bank”) to review the condensed set of financial statements in the half-yearly financial report for the six months ended 30 June 2015 which comprises the Condensed Consolidated Interim Statements of Profit or Loss, Other Comprehensive Income, Financial Position, Changes in Equity, Cash Flows for the six months ended 30 June 2015, and the related explanatory notes (“the condensed consolidated interim financial statements”). We have read the other information contained in the half-yearly financial report and considered whether it contains any apparent misstatements or material inconsistencies with the information in the condensed set of financial statements.

This report is made solely to the Bank in accordance with the terms of our engagement to assist the Bank in meeting the requirements of the Disclosure and Transparency Rules (“the DTR”) of the UK’s Financial Conduct Authority (“the UK FCA”). Our review has been undertaken so that we might state to the Bank those matters we are required to state to it in this report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Bank for our review work, for this report, or for the conclusions we have reached.

Directors’ responsibilities

The half-yearly financial report is the responsibility of, and has been approved by, the Directors. The Directors are responsible for preparing the half yearly financial report in accordance with the DTR of the UK FCA. As disclosed in note 2, the annual financial statements of the CSi group are prepared in accordance with IFRSs as adopted by the EU. The condensed set of financial statements included in this half-yearly financial report has been prepared in accordance with IAS 34 Interim Financial Reporting as adopted by the EU.

Our responsibility

Our responsibility is to express to the Bank a conclusion on the condensed set of financial statements in the half-yearly financial report based on our review.

Scope of review

We conducted our review in accordance with International Standard on Review Engagements (UK and Ireland) 2410 Review of Interim Financial Information Performed by the Independent Auditor of the Entity issued by the Auditing Practices Board for use in the UK. A review of interim financial information consists of making enquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with International Standards on Auditing (UK and Ireland) and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

Conclusion

Based on our review, nothing has come to our attention that causes us to believe that the condensed set of financial statements in the half yearly financial report for the six months ended 30 June 2015 is not prepared, in all material respects, in accordance with IAS 34 as adopted by the EU and the DTR of the UK FCA.



D Rogers

For and on behalf of KPMG LLP
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27 August 2015



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