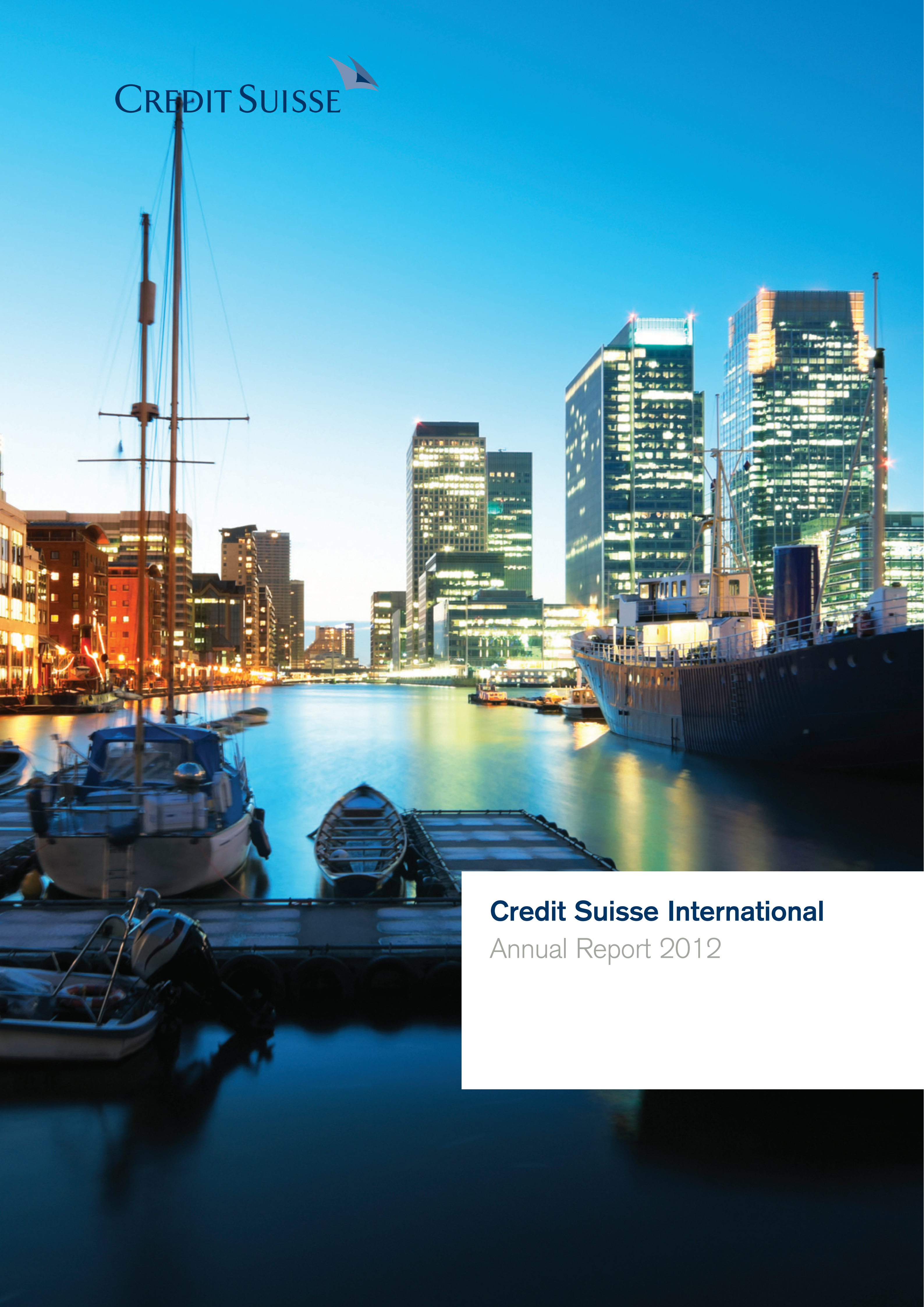


Credit Suisse International

Annual Report 2012

Board of Directors

Noreen Doyle (Chair and Independent Non-Executive)

Gael de Boissard (CEO)

Eric Varvel

James Leigh-Pemberton

Tobias Guldimann

Chris Carpmael

Michael Hodgson

Stephen Kingsley (Independent Non-Executive)

Company Secretary

Paul E Hare

Company Registration Number	2500199

Directors' Report for the Year ended 31 December 2012

The directors present their Report and the Financial Statements for the year ended 31 December 2012.

International Financial Reporting Standards

Credit Suisse International's 2012 Financial Statements have been prepared in accordance with International Financial Reporting Standards ('IFRS') as adopted for use in the European Union ('EU').

The Financial Statements for the year ended 31 December 2012 comprise Credit Suisse International ('CSi' or the 'Bank') and its subsidiaries together referred to as the 'CSi group'.

The Financial Statements were authorised for issue by the directors on 28 March 2013.

Business Review

Profile

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

CSi is an unlimited liability company and an indirect wholly owned subsidiary of Credit Suisse Group AG ('CSG'). CSi is authorised under the Financial Services and Markets Act 2000 by the Financial Services Authority ('FSA'). CSG, a company domiciled in Switzerland, is the ultimate parent of a worldwide group of companies (collectively referred to as the 'CS group') specialising in Investment Banking and Private Banking & Wealth Management. 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 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 47,400 employees from approximately 100 different nations.

Management and governance

A number of management changes have been effected and governance strengthened. Gael de Boissard was appointed CEO of CSi and Michael Hodgson was appointed deputy CEO. Noreen Doyle was appointed Chair of the Board of Directors and Stephen Kingsley was appointed Chair of the Audit Committee. All such nominations are dealt with at CS group level.

In addition, the Bank has appointed a UK Chief Risk Officer ('CRO') and has made a series of changes to the risk governance framework as described in 'Risk Management' – page 10. Furthermore a risk committee has been established as set out in 'Internal Control and Financial Reporting' – page 8.

As in previous years employee compensation remains the subject of the CS group Remuneration Committee. The recommendations are, however, reviewed by CSi's Board of Directors. Consistent with the requirements of the FSA Remuneration Code the Bank has broadened the 'Malus clause' which is applicable to Code staff, UK Managing Directors and certain other identified employees.

Principal products/Principal product areas

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

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

Economic environment

In the UK, the annual rate of Consumer Price Index ('CPI') inflation was 2.7% in December 2012 which was a reduction from 2011. The Bank of England's target rate was 2%. The Bank of England left interest rates unchanged at 0.5% throughout the year, and the Asset Purchase Program was increased by GBP 100 billion to GBP 375 billion in 2012. The unemployment rate was 7.7% at the end of 2012. After growing by 0.9% in 2011, UK Gross Domestic Product ('GDP') eased to 0.4% in 2012.

The global economy showed signs of expansion in the first quarter of 2012 however as the year progressed there were signs of weakness which remained through to the end of the year. While growth in the US continued, overall economic activity in the Eurozone continued to contract.

Central Banks across the globe maintained expansionary monetary policies in an effort to strengthen and stimulate their economies. The US Federal Reserve ('Fed') maintained interest rates unchanged at 0.25% through the year. The Fed reacted to the slow improvement in the US labour market by extending its pledge to keep short-term interest rates at low levels until mid-2015, noting that monetary policy will remain highly accommodative even after the recovery strengthens. The Fed also announced it would purchase significant amounts of mortgage-backed securities until there is a substantial labour market improvement. The Fed also continued to shift its short-term US Treasury holdings towards longer-term securities.

In July 2012 the European Central Bank ('ECB') cut its key rate from 1% to 0.75%. This was driven by the need to ease monetary conditions in the Eurozone on the back of weak economic growth that resulted in heightened uncertainty, weighing on both confidence and sentiment. At the same time the ECB also cut its deposit rate from 0.25% to zero, with the intention of encouraging banks to lend to other institutions, companies or households instead of placing excess cash in the ECB's overnight deposit facility.

The Eurozone sovereign debt crisis remained a key theme of 2012. Greek elections in May did not result in a parliamentary majority and only renewed elections in June resulted in the formation of a coalition seeking continued participation of the country in the Eurozone. In late June, Spain asked for a EUR 100 billion bailout package to recapitalise Spanish banks. European leaders agreed on further proposals to stabilise the Eurozone, including a single banking supervisory mechanism run by the ECB and authorising the European Stability Mechanism to inject funds into banks directly. The ECB's pledge to buy unlimited amounts of Eurozone government bonds helped diffuse the Eurozone debt crisis towards the end of the year as yields on Spanish and Italian bonds fell.

In the emerging markets, there were similar trends. Brazil's central bank decreased its benchmark rate to 7.25% on the back of slowing growth in the economy. China also lowered interest rates for the first time since 2008 stepping up efforts to combat a deepening slowdown, and in India the Reserve Bank of India cut interest rates to boost a sagging economy.

Financial markets and sector environment

In the first quarter of 2012, equity markets had their best quarterly performance of the past decade with some markets rallying more than 10%. Volatility, as indicated by the Chicago Board of Options Exchange Market Volatility Index ('VIX'), reached its lowest 5 year level in the first quarter driven by increased liquidity. Volatility remained low for the most part of the year, however towards the end of the year it increased as the US 'fiscal cliff' debate became more contentious. Despite lacklustre third quarter earnings results in US and Europe, increased risk appetite and low bond yields resulted in global equity prices ending higher by the end of 2012, however trading volumes on most stock exchanges remained subdued.

After a good performance for credit markets in the first half of 2012, the debt crisis in Europe drove yields of fiscally weaker European sovereigns and European banks to record highs. The first half of the year saw sovereign bonds from most troubled Eurozone countries posting negative returns and yields on Spanish bonds reached record levels. This trend was reversed towards the end of the year as concerns about the stability of the European Monetary Union diminished. Corporate and emerging markets high yield bonds outperformed German Bunds and European investment grade corporate bonds. In the US markets, the quantitative easing announcements by the Fed pushed up prices of inflation-linked bonds as inflation expectations increased.

In currency markets, the European sovereign debt crisis and softening growth indicators were the main drivers in 2012. Initially the US dollar strengthened against the euro on concerns over Eurozone debt and risk aversion. However in the second half of the year, the measures announced by the ECB and the actions taken by the Fed (which announced a further round of Treasury securities purchases) eased the risk premium on the euro. The US dollar was subdued against sterling initially, but lost ground in the later part of the year due to the easing of monetary policies by the Fed. For the most part of the year, sterling appreciated against the Euro on market concerns about the developments in the euro area. Towards the end of the year, however, sterling depreciated against the euro due to a reduction in near-term tail risks associated with euro-area sovereign debt problems.

Commodity markets were volatile, beginning with an increase in prices in the first quarter, due to political tensions in the Middle East resulting in an increase in oil prices. The second quarter saw sharp price declines mainly on account of selling pressures due to concerns regarding the global economic slowdown, a strong US dollar and the ongoing Eurozone sovereign debt issues. Central Bank announcements of continued monetary easing drove up gold prices.

2012 was a challenging year for the banking sector. In Investment Banking, global equity trading volumes decreased 21% year on year. Global completed mergers and acquisitions (M&A) activity was stable year on year, while European activity declined, with completed transactions down 27%. Global equity underwriting volumes were up 36% year on year, with European demand picking up. For global debt underwriting, volumes were up 88% year on year, with strong activity in Europe. In the US, fixed income volumes were stable year on year. European bank stocks performed strongly in the second half of the year and for the fourth quarter had gains of 11%.

In December, European finance ministers proposed further details on EU banking supervision whereby the ECB would assume overall oversight of EU banks in collaboration with national regulators, with a focus on large, systemically important institutions. Banks continued to adjust and develop their business models, driven by the need to achieve cost efficiencies and the impacts of regulatory developments.

Performance

For the year ended 31 December 2012, the CSi group reported a net loss attributable to shareholders of USD 734 million (2011: USD 278 million loss). Net revenues amounted to USD 1,302 million (2011: USD 1,786 million). After operating expenses the CSi group reported a loss before tax of USD 359 million (2011: USD 193 million loss).

While 2012 net revenues have deteriorated relative to 2011, this is primarily attributable to the impact of fair value changes in financial liabilities due to improvements in CSi's own credit worthiness, resulting in valuation losses of USD (259) million (2011: USD 184 million gain).

The underlying 2012 financial performance of the CSi group was driven by a stable but subdued environment with generally lower uncertainty and volatility than in 2011.

Against this market backdrop, the divisional revenues were as follows:

- Fixed Income revenues increased in 2012 by 4% to USD 1,829 million compared to 2011. EMEA trading had a strong performance in 2012 driven by increased investor appetite for Turkish, Russian, Israeli and South African Bonds and FX products on the back of the Eurozone crisis. The Structured Credit business showed increased revenues driven by a large secured funding intermediation transaction, and the buy-back and subsequent unwind of several long dated asset liability matching transactions. Within the Rates business, customer flows could not be maintained, with stagnant market conditions and lower client risk appetite due to the lack of positive news in the market.
- Equity revenues were USD 789 million, an increase of 6% compared to 2011. Equity Derivatives revenues increased in 2012 and within Prime Services the Delta One financing business showed strong performance in the China ETF and NDF markets. The volatility trading desk recorded declining revenues, since 2012 was a benign year with less major events and disturbances in the market compared to 2011.
- Investment Banking revenues were USD 226 million which is consistent with the prior year

Note 4 – Segmental Analysis illustrates the region which generated the above revenues.

Net revenues were further impacted by the following items not allocated to the above divisions:

- Valuation losses of USD 160 million (2011: USD 132 million gain) as a result of fair value changes in issued structured notes due to changes in the CSi group's own creditworthiness arising from the tightening of credit curves in 2012.
- A charge of USD 109 million (2011: USD 161 million) was included in net revenues as a result of a change in estimate relating to the expansion of the use of Overnight Indexed Swap ('OIS') interest rate yield curves, instead of other reference rates such as London Interbank Offered Rate ('LIBOR'), in determining the fair value of certain collateralised derivatives. This was based on the regular review of observable parameters used in pricing models.
- The cost of revenue sharing agreements with other CS group companies for the year of USD 734 million (2011: USD 459 million).
- USD 662 million of costs relating to treasury funding charges (2011: USD 540 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. This includes losses of USD

99 million (2011: USD 52 million gain) as a result of fair value changes in treasury issued debt due to changes in the CSi's own creditworthiness.

The CSi group's operating expenses were USD 1,661 million (2011: USD 1,979 million). Compensation costs decreased by USD 28 million in 2012 as a result of cost reduction initiatives. General and administrative expenses decreased by USD 309 million, of which USD 157 million was as a result of a decrease in overhead expenses allocated from CS group. Additionally, brokerage and clearing house fees were reduced, primarily due to lower aluminium metal storage costs following the sale of inventory in early 2012.

Included in operating expenses is an expense of USD 38 million (2011: USD 44 million) in respect of the UK Bank Levy. The tax, applicable to all Banks and Banking groups operating in the UK, is charged on liabilities as at the statement of financial position date at a rate of 8.8 basis points for all short-term liabilities and 4.4 basis points for long-term liabilities, increasing to 13.0 and 6.5 basis points respectively in 2013.

Net income for the year was significantly impacted by the increased tax charge. In the second quarter of 2012, the UK and US tax Authorities advised CSi group that they reached agreement on the CSG Advanced Pricing Agreement ('APA') application for the period 2004-2011. The APA sets out the transfer pricing methodology which determines the allocation of profits and losses to be taxed in each jurisdiction. As a result of this agreement, for tax purposes, CSi reduced losses carried forward by USD 834 million, which resulted in an income tax expense of USD 324 million and an overall reduction in CSi's net deferred tax asset of USD 334 million.

The effective tax rate was (103.9%) for the year ended 31 December 2012. The effective tax rate is higher than the UK statutory tax rate due primarily to the decrease in the deferred tax asset due to the finalisation of the APA described above, as well as the reduction in the UK statutory tax rate. The effective tax rate for the similar period in 2011 was (44.0%). In that period the effective tax rate was higher than the statutory rate due primarily to the write-down of the deferred tax asset due to a change in the UK corporation tax rate.

As at 31 December 2012, the CSi group had total assets of USD 693,050 million (31 December 2011: USD 712,409 million) and total shareholders' equity of USD 15,589 million (31 December 2011: USD 11,135 million).

Off-Balance Sheet arrangements are highlighted in Note 34 – Guarantees and Commitments and Note 35 – Securitisations, Special Purpose Entities and Other Structured Transactions.

Outlook

While there are certain signs of improvement in the financial markets, CSi expects the current subdued conditions to continue for the medium term, with stability and growth in Europe, and consequent impact on client activity, the most significant concern. CSi continues to respond to this by maintaining client focus and optimising the business model including reducing costs. CSi continues to execute on risk reduction, including reviewing the extent to which business originated outside of the UK will continue to be transacted in CSi in the longer term. Maintaining a strong capital position is a critical priority, including through the transition to the new capital standards which will be required when Basel III is implemented in the EU (expected in 2014)

During 2012, CS group took significant steps to adapt its businesses and organisation to accommodate the new regulatory requirements, changing client demands and the current market environment. Since the beginning of the year 2012, Basel III risk-weighted assets were reduced and the capital position was strengthened as a result of a capital restructuring, and the addition of further capital. In Investment Banking, the CS group substantially adapted its business model and was one of the first global banks to be Basel III compliant. CS group is now generating higher revenues and higher returns on significantly lower risk-weighted assets and on a substantially reduced expense base. CS group has a clearly positioned Fixed Income business, which runs on much lower risk, is capital-efficient and client-oriented, and has an industry-leading Equities franchise, which is highly scalable.

The impact of these actions will provide the CSi group with substantial opportunity for growth and stronger overall performance, particularly when economic and market conditions improve.

Fair Value Measurement

Financial instruments carried at fair value are categorised under the three levels of the IFRS fair value hierarchy, where Level 3 comprises assets and liabilities for which the inputs for the asset or liability are not based on observable market data (unobservable inputs).

Total Level 3 assets were USD 12.6 billion as at 31 December 2012 (31 December 2011: USD 20.5 billion), which was equivalent to 1.82% of total assets.

Total Level 3 liabilities were USD 11.2 billion as at 31 December 2012 (31 December 2011: USD 15.5 billion), which was equivalent to 1.65% of total liabilities.

The decrease in Level 3 assets was principally driven by asset disposals in legacy businesses, along with the strategy to exit risky positions.

The decrease in Level 3 liabilities was principally driven by buybacks/expiries and transfers out of Level 3 due to improved pricing procedures and liquidity across a range of businesses.

Dodd Frank Regulations

In December 2011, the Commodity Futures Trading Commission (‘CFTC’) finalised rules under the Dodd-Frank Act requiring regulatory and public reporting for a wide range of OTC derivatives. In addition, during 2012 the CFTC finalised many of the rules under the Dodd-Frank Act relating to the regulation of swap dealers and major swap participants. Market-making of in-scope products with US clients must be executed via a Swap Dealer. Following the introduction of Dodd Frank legislation (Title 7), CSi was selected to serve as Credit Suisse's principal swap dealing entity. In line with the legislation CSi has registered as a swap dealer with the CFTC and has to comply with the relevant obligations.

Selected European credit risk exposures

CSi’s exposure to certain European countries is summarised in the table below. Gross credit risk exposures, presented on a risk-based view, include loans and loan commitments, investments (such as cash securities and other investments) and all exposures of derivatives (not limited to credit protection purchased and sold), after consideration of legally enforceable netting agreements. Net exposures include the impact of risk mitigation such as Credit Default Swaps (‘CDS’) and other hedges, guarantees, insurance and collateral (primarily cash and securities). Collateral values applied for the calculation of the net exposure are determined in accordance with risk management policies and reflect applicable margining considerations.

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

31 December 2012	Sovereign		Financial Institutions		Corporate	
USD Billions	**Gross Exposure**	**Net Exposure**	**Gross Exposure**	**Net Exposure**	**Gross Exposure**	**Net Exposure**
Greece	0.3	0.1	0.1	0.0	0.0	0.0
Ireland	0.1	0.1	0.6	0.1	1.2	1.2
Italy	5.0	0.7	2.8	0.9	0.6	0.4
Portugal	0.1	0.0	0.1	0.0	0.1	0.1
Spain	0.0	0.0	1.4	0.5	1.3	1.0
Total	**5.5**	**0.9**	**5.0**	**1.5**	**3.2**	**2.7**

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 approach is consistent with the current capital regime and the forthcoming Basel III 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 FSA. The Bank has put in place processes and controls to monitor and manage the Bank's capital adequacy. No breaches were reported to the FSA during the year.

In anticipation of the implementation of Basel III, CSi's capital was restructured in February 2012. All classes of preference shares amount to USD 5,235 million, and callable subordinated loans amounting to USD 2,963 million were redeemed and replaced by new participating shares (ordinary shares with no voting rights). Furthermore, USD 202 million of capital was issued to replace subordinated debt that was repaid. As a result of these steps, there was a movement of USD 3,165 million from Tier 2 to Tier 1 capital.

In addition to the capital restructuring, CSi issued capital of USD 2,000 million during the course of 2012 to address regulatory capital requirements.

Changes in capital are set out in Note 28 – Share Capital and Share Premium.

Issues of long-term debt are set out in Note 27 – Long Term Debt.

Internal Control and Financial Reporting

The directors are ultimately responsible for the effectiveness of internal control in the CSi group. Procedures have been designed for safeguarding assets; for maintaining proper accounting records; and for assuring the reliability of financial information used within the business, and for that provided to external users. Such procedures are designed to manage rather than eliminate the risk of failure to achieve business objectives and can only provide reasonable and not absolute assurance against material misstatement, errors, losses or fraud.

The key procedures that have been established are designed to provide effective internal control within the CSi group. Such procedures for the ongoing identification, evaluation and management of the significant risks faced by the CSi group have been in place throughout the year and up to 28 March 2013, the date of approval of the Consolidated Annual Report for 2012.

Key risks identified by the directors are formally reviewed and assessed at least once a year by the Board, in addition to which key business risks are identified, evaluated and managed by operating management on an ongoing basis by means of procedures such as credit and other authorisation limits and segregation of duties.

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

There are well-established budgeting procedures in place and reports are presented regularly to the Board detailing the performance of each principal business unit, variances against budget and prior year, and other performance data.

Committees

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

Credit Suisse International Audit Committee

The purpose of the Committee is to:

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

The Audit Committee members are Stephen Kingsley (Chair), Noreen Doyle and James Leigh-Pemberton.

In reviewing the CSi Annual Report 2012, the Audit Committee considered critical accounting estimates and judgements including the valuation of Level 3 assets and liabilities, and the recoverability of the deferred tax asset. The Audit Committee additionally considered the projected capital requirements in the next 12 months and, in this context, the continued access to appropriate funding to maintain adequate capital and liquidity positions.

Credit Suisse International Risk Committee

The purpose of the Committee is to:

- review and assess the integrity and adequacy of the risk management function of CSi group including processes and organisational structures;
- review and assess the CSi group's credit risk including any large exposures;
- review the Internal Capital Adequacy Assessment Process ('ICAAP') and the Individual Liquidity Adequacy Assessment ('ILAA');
- review with the management and jointly with the Credit Suisse International Audit Committee, significant operational risk matters involving business processes and system infrastructure;
- review and assess the adequacy of the risk measurement methodologies including the Risk Appetite framework;
- review other major risk concentration as deemed appropriate;
- monitor the adequacy of the business continuity program;
- review with management and jointly with the Credit Suisse International Audit Committee, significant matters of potential reputational risk;

- review and advise on risk adjustments to remuneration schemes; and
- report significant issues to the Board.

The Risk Committee members are Noreen Doyle (Chair), Tobias Guldimann and Eric Varvel.

Credit Suisse International Disclosure Committee

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

Risk management

Overview

The Bank's risk management process is designed to ensure that there are sufficient independent controls to measure, monitor and control risks in accordance with the Bank's control framework and in consideration of industry best practices. The primary responsibility for risk management within CSi lies with the Bank's senior business line managers. They are held accountable for all risks associated with their businesses, including counterparty risk, market risk, liquidity risk, operational risk, legal risk, settlement risk, country risk and reputational risk.

The Bank's risk management framework is based on transparency, management accountability and independent oversight. As a consequence of the increased complexity of risks, the Bank has defined its risk perspective broadly. Risk management plays an important role in the Bank's business planning process and is strongly supported by senior management and the Board of Directors. The primary objectives of risk management are to protect the Bank's financial strength and reputation, while ensuring that capital is well deployed to support business activities and grow shareholder value. Although the Bank has implemented risk management processes and control systems, it works to limit the impact of negative developments by managing concentrations of risks.

Risk governance

The prudent taking of risk in line with the Bank's strategic priorities is fundamental to its business as part of a leading global banking group. To meet the challenges in a fast changing industry with new market players and innovative and complex products, the Bank seeks to continuously strengthen the risk function, which is independent of, but closely interacts with, the trading functions to ensure the appropriate flow of information. In the past year, the Bank has made a series of changes to the risk governance framework designed to enhance the effectiveness of controls at all levels of the organisation. These changes include the appointment of a CRO with responsibility for overseeing the Bank's profile across all relevant risk types, the establishment of new risk committees at Board and senior management levels to increase the scrutiny over the Bank's risk exposures, and the introduction of new, more granular limits to provide additional controls over specific businesses, concentrations or particular risks. These changes are described in more detail below.

The Board of Directors has delegated authority to establish more granular limits within the bounds of its overall risk limits to a new UK Investment Banking Risk Management Committee, which is chaired by the Bank CRO and consists of senior risk and business managers. The purpose of the UK Investment Banking Risk Management Committee is to:

- ensure that proper standards for risk management are established;

- define and implement a risk appetite framework covering market, credit and operational risks and make recommendations to the Board on risk appetite;
- review the ICAAP and ILAA and make recommendations to the Bank's Risk committee on capital adequacy;
- allocate risk capital and establish market risk limits for individual businesses within authorities delegated by the Board;
- review the risk portfolio, set/approve limits and ceilings and other appropriate measures to monitor and manage the risk portfolio for the Bank; and
- review and implement appropriate controls over remote booking risk relating to the Bank.

Risk organisation

Risks arise in all of the Bank's business activities and cannot be completely eliminated, but they are managed through its internal control environment. The Bank's risk management organisation reflects the specific nature of the various risks in order to ensure that risks are managed within limits set in a transparent and timely manner.

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

The risk management function is responsible for providing risk management oversight and establishing a framework to manage all risk management matters through four primary risk departments: Strategic Risk Management ('SRM') assesses the Bank's overall risk profile on a strategic basis, recommending corrective action where necessary, and is also responsible for market risk management including measurement and limits; Risk Analytics and Reporting ('RAR') is responsible for risk analytics, reporting, risk model validation, systems implementation and policies; Credit Risk Management ('CRM') is responsible for approving credit limits, monitoring and managing individual exposures and assessing and managing the quality of credit portfolios and allowances; and Bank Operational Risk Oversight ('BORO') is responsible for establishing a framework for managing operational risks including ensuring that operational risk policies are consistently implemented and helping understand, assess, and mitigate operational risks. The risk management function also addresses critical risk areas such as business continuity, technology risk and reputational risk management.

Committees are implemented at a senior management level to support risk management. The Risk Processes and Standards Committee is responsible for establishing and approving standards regarding risk management and risk measurement, including methodology and parameters, for all CS group entities, including the Bank. The Credit Portfolio and Provisions Review Committee review the quality of the credit portfolio with a focus on the development of impaired assets and the assessment of related provisions and valuation allowances. The Reputational Risk and Sustainability Committee sets policies and reviews processes and significant cases relating to reputational risks.

Risk limits

A sound system of risk limits is fundamental to effective risk management. The limits define CSi group's maximum risk appetite given the market environment, business strategy and financial resources available to absorb losses. The Bank uses an Economic Capital ('EC') limit structure to manage overall risk-taking. The overall risk limits for the Bank are set by the Board of Directors and are binding. The Bank's CRO can approve positions that exceed the Board of Directors limits by no more than an approved percentage with any such approval being reported to the Board. Positions that exceed the Board of Directors limits by more than such approved percentage can only be approved by the Bank's CRO and CEO acting jointly.

Within the bounds of the overall risk appetite of the Bank, as defined by the limits set by the Board, the UK Investment Banking Risk Management Committee and Bank CRO are responsible for setting specific limits deemed necessary to control the concentration of risk within individual lines of business. In the past year, the Bank has introduced a range of more granular limits for individual businesses, concentrations and specific risks, such as those booked from remote locations.

Market risk limit measures are typically based on Value at Risk ('VaR') or EC, though they could also include exposure, risk sensitivity and scenario analysis. Credit risk limits include overall limits on portfolio credit quality and a system of individual counterparty credit limits that is used to control concentration risks. These risk limits are binding and generally set to ensure that any meaningful increase in risk exposures is promptly escalated. In addition, the Bank has established thresholds for operational risk losses that trigger additional management action.

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

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

Economic capital and position risk

EC is the core CS group-wide risk management tool and is integrated throughout, being calculated, reported and monitored for both CS group as a whole and for material subsidiaries, such as the Bank. It represents current market practice for measuring and reporting all quantifiable risks and measures risk in terms of economic realities rather than regulatory or accounting rules. It also provides a common terminology for risk across CS group, which increases risk transparency and improves knowledge-sharing. The development and usage of EC methodologies and models have evolved over time without a standardised approach within the industry; therefore comparisons across firms may not be meaningful.

Position Risk, which is a component of the EC framework, is used to assess, monitor and report risk exposures throughout CS group. Position Risk EC is the level of unexpected loss in economic value on the entity's portfolio of positions over a one-year horizon that is exceeded with a given small probability (1% for risk management purposes; 0.03% for capital management purposes).

CS group regularly reviews the EC methodology to ensure the model remains relevant as markets and business strategies evolve.

As at 31 December 2012 the 99% Position risk was USD 2,347 million (2011: USD 2,816 million) for CSi group which was within the agreed limit set by Board of Directors[1].

Subsidiary Undertakings and Branches

Credit Suisse First Boston International Warrants Limited was liquidated on 2 November 2012.

Credit Suisse First Boston Holding BV was liquidated on 12 December 2012.

Refer to Note 21 – Significant Subsidiaries.

Dividends

No dividends were paid or are proposed for the year ended 31 December 2012 (2011: USD Nil).

[1] Unaudited

Directors

The names of the directors as at the date of this report are set out on page 1. Changes in the directorate since 31 December 2011 and up to the date of this report are as follows:

Appointment	
Stephen Kingsley	29 March 2012
Chris Carpmael	29 March 2012
Gael de Boissard	28 March 2013
Michael Hodgson	28 March 2013

Resignation	
Fawzi Sami Kyriakos-Saad	22 November 2012
Costas Michaelides	6 December 2012
Rudolf Bless	6 December 2012

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

Disclosure of Information to Auditors

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

Employment of Disabled Persons

The CSi group adopts the CS group's policies relating to the employment of disabled persons and gives full and fair consideration to disabled persons in employment applications, training and career development including those who become disabled during their period of employment.

The CS group has a Disability Interest Forum in place as a UK initiative. This forum:

- provides a support network;
- facilitates information sharing for those with a disability or those caring for a family member or friend with a disability; and
- invites all those who want to participate and who have an interest.

The forum raises awareness of issues related to disability and promotes an environment where disabled employees are supported and are given the opportunity to reach their full potential.

Donations

During the year the CSi group made USD 204 (2011: USD 11,450) of charitable donations. There were no political donations made by the CSi group during the year (2011: USD Nil).

Auditors

Pursuant to Section 487 of the Companies Act 2006, the auditors will be deemed to be reappointed and KPMG Audit Plc will therefore continue in office.

Subsequent Events

In the UK budget announcement of 20 March 2013, the UK government announced its intention to further reduce the UK corporation tax rate to 20% with effect from 1 April 2015. This tax rate reduction is expected to be substantively enacted in 2014. The effect of this tax rate reduction upon CSi group's deferred tax balance cannot be reliably quantified at this stage.

Also in the UK budget announcement of 20 March 2013, the UK Bank Levy rate from 1 January 2014 will be 14.2 basis points for short term liabilities and 7.1 basis points for long term liabilities.

By Order of the Board

Paul E Hare
Company Secretary

One Cabot Square
London E14 4QJ
28 March 2013

Statement of Directors' Responsibilities

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

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

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

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

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

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

Signed on behalf of the Board of Directors on 28 March 2013 by:

C J Carpmael

Chris Carpmael

Director

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

We have audited the financial statements of Credit Suisse International for the year ended 31 December 2012 set out on pages 18 to 131. The financial reporting framework that has been applied in their preparation is applicable law and International Financial Reporting Standards (IFRSs) as adopted by the EU and, as regards the parent company ("the Bank") financial statements, as applied in accordance with the provisions of the Companies Act 2006.

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

Respective Responsibilities of Directors and Auditors

As explained more fully in the Directors' Responsibilities Statement set out on page 15, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit, and express an opinion on, the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's (APB's) Ethical Standards for Auditors.

Scope of the audit of the financial statements

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

Opinion on financial statements

In our opinion:

- the financial statements give a true and fair view of the state of the CSi group's and of the Bank's affairs as at 31 December 2012 and of the CSi group's loss for the year then ended;
- the CSi group financial statements have been properly prepared in accordance with IFRS as adopted by the EU;
- the Bank financial statements have been properly prepared in accordance with IFRS as adopted by the EU and as applied in accordance with the provisions of the Companies Act 2006; and
- the financial statements have been prepared in accordance with the requirements of the Companies Act 2006 and, as regards the CSi group financial statements, Article 4 of the IAS Regulation.

Opinion on other matters prescribed by the Companies Act 2006

In our opinion the information given in the Directors' Report for the financial year for which the financial statements are prepared is consistent with the financial statements.

Matters on which we are required to report by exception

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

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

Nicholas Edmonds

(Senior Statutory Auditor)

For and on behalf of KPMG Audit Plc, Statutory Auditor

Chartered Accountants

15 Canada Square

London

E14 5GL

28 March 2013

Consolidated Statement of Income for the Year ended 31 December 2012

	Reference to note	2012	2011
Consolidated statement of income (USD million)			
Interest income	5	1,077	1,285
Interest expense	5	(1,248)	(1,367)
Net interest expense		(171)	(82)
Commission and fee income	6	173	184
Commission and fee expense	6	(171)	(222)
Net commission and fee income/(expense)		2	(38)
Release of provision/ (Provision) for credit losses	7	44	(23)
Net gains from financial assets/liabilities at fair value through profit or loss	8	2,172	2,399
Other revenues	9	(745)	(474)
Gain arising on business combination	40	-	4
Net revenues		**1,302**	**1,786**
Compensation and benefits	10	(437)	(465)
General and administrative expenses	11	(1,224)	(1,514)
Total operating expenses		**(1,661)**	**(1,979)**
Loss before taxes		**(359)**	**(193)**
Income tax expense	12	(373)	(85)
Net loss		**(732)**	**(278)**
Attributable to Credit Suisse International shareholders		(734)	(278)
Attributable to noncontrolling interest		2	-

Loss for both 2012 and 2011 is from continuing operations.

The Bank's loss after tax was USD 691million for the year ended 31 December 2012 (2011: Loss USD 272 million). As permitted by s408 of the Companies Act 2006, no separate income statement is presented in respect of the Bank.

There are no other comprehensive incomes or expenses not included within the Consolidated Statement of Income.

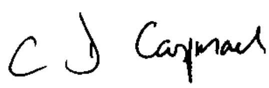
The notes on pages 26 to 131 form an integral part of the Financial Statements.

Consolidated Statement of Financial Position as at 31 December 2012

	Reference to note	2012	2011
Assets (USD million)			
Cash and due from banks		18,690	14,795
Interest-bearing deposits with banks		2,525	1,496
Securities purchased under resale agreements and securities borrowing transactions	14	24,103	29,406
Trading financial assets at fair value through profit or loss	15	557,333	574,734
of which positive market values from derivative instruments	15	506,232	529,346
Financial assets designated at fair value through profit or loss	16	20,128	18,701
Other loans and receivables	17	13,509	14,343
Other investments		33	31
Investment property	18	518	561
Current tax assets		71	51
Deferred tax assets	13	1,450	1,843
Other assets	19	53,960	55,744
Intangible assets	22	465	407
Property and equipment	23	265	297
Total assets		**693,050**	**712,409**
Liabilities and shareholders' equity (USD million)			
Deposits	24	4,844	4,451
Securities sold under repurchase agreements and securities lending transactions	14	4,874	6,971
Trading financial liabilities at fair value through profit or loss	15	525,737	551,224
of which negative market values from derivative instruments	15	514,265	540,734
Financial liabilities designated at fair value through profit or loss	16	36,644	31,352
Short term borrowings	25	29,718	32,742
Other liabilities	19	44,966	42,835
Provisions	26	24	26
Long term debt	27	30,654	31,673
Total liabilities		**677,461**	**701,274**
Shareholders' equity			
Share capital	28	3,108	9,625
Share premium	28	12,699	1,016
Retained earnings		(240)	494
Total shareholders' equity		**15,567**	**11,135**
Noncontrolling interest	35	22	-
Total equity		**15,589**	**11,135**
Total liabilities and equity		**693,050**	**712,409**

The notes on pages 26 to 131 form an integral part of the Financial Statements.

Approved by the Board of Directors on 28 March 2013 and signed on its behalf by:



Chris Carpmael

Director

Bank Statement of Financial Position as at 31 December 2012

	Reference to note	2012	2011
Assets (USD million)			
Cash and due from banks		18,553	14,750
Interest-bearing deposits with banks		2,525	1,496
Securities purchased under resale agreements and securities borrowing transactions	14	24,103	29,406
Trading financial assets at fair value through profit or loss	15	557,302	574,953
of which positive market values from derivative instruments	15	506,587	530,064
Financial assets designated at fair value through profit or loss	16	20,128	18,701
Other loans and receivables	17	13,513	14,348
Current tax assets		70	51
Deferred tax assets	13	1,450	1,843
Other assets	19	54,268	56,035
Investments in subsidiary undertakings	21	10	10
Other investments		33	31
Intangible assets	22	465	407
Property and equipment	23	250	281
Total assets		**692,670**	**712,312**
Liabilities and shareholders' equity (USD million)			
Deposits	24	4,844	4,451
Securities sold under repurchase agreements and securities lending transactions	14	4,874	6,971
Trading financial liabilities at fair value through profit or loss	15	525,883	551,916
of which negative market values from derivative instruments	15	514,411	541,427
Financial liabilities designated at fair value through profit or loss	16	35,797	30,298
Short term borrowings	25	29,742	32,766
Other liabilities	19	45,280	43,137
Provisions	26	24	26
Long term debt	27	30,649	31,645
Total liabilities		**677,093**	**701,210**
Shareholders' equity			
Share capital	28	3,108	9,625
Share premium	28	12,699	1,016
Retained earnings		(230)	461
Total shareholders' equity		**15,577**	**11,102**
Total liabilities and shareholders' equity		**692,670**	**712,312**

The notes on pages 26 to 131 form an integral part of the Financial Statements.

Approved by the Board of Directors on 28 March 2013 and signed on its behalf by:

C J Carpmael

Chris Carpmael

Director

Consolidated Statement of Changes in Equity for the Year ended 31 December 2012

	Share Capital	Share Premium	Retained Earnings	Non-controlling Interest	Total
Consolidated statement of changes in equity (USD million)					
Balance at 1 January 2012	**9,625**	**1,016**	**494**	**-**	**11,135**
Total comprehensive income for the period					
Loss for the period	-	-	(734)	2	(732)
Subsidiaries acquired in the year(refer Note 35)				20	20
Cancellation of shares relating to capital restructuring[1]	-	-	-	-	-
Reduction in face value of Ordinary shares[2]	-	-	-	-	-
Transfer of Participating shares relating to capital restructuring	(3,951)	3,951	-	-	-
Transfer of Preference shares relating to capital restructuring	(5,235)	5,235	-	-	-
Issuance of Participating shares relating to capital restructuring	581	(581)	-	-	-
Conversion of subordinated debt to Participating shares relating to capital restructuring	329	2,634	-	-	2,963
Issue of Participating shares	1,759	444	-	-	2,203
Balance at 31 December 2012	**3,108**	**12,699**	**(240)**	**22**	**15,589**

	Share Capital	Share Premium	Retained Earnings	Total
Consolidated statement of changes in equity (USD million)				
Balance at 1 January 2011	**9,625**	**1,016**	**772**	**11,413**
Loss for the period	-	-	(278)	(278)
Balance at 31 December 2011	**9,625**	**1,016**	**494**	**11,135**

There were no dividends paid during 2012 (2011: Nil).

The notes on pages 26 to 131 form an integral part of the Financial Statements.

[1] The cancellation is USD 200 but shown as Nil as the statement is presented in USD million.
[2] The reduction is USD 112 but shown as Nil as the statement is presented in USD million.

Bank Statement of Changes in Equity for the Year ended 31 December 2012

	Share Capital	Share Premium	Retained Earnings	Total
Bank statement of changes in equity (USD million)				
Balance at 1 January 2012	**9,625**	**1,016**	**461**	**11,102**
Total comprehensive income for the period				
Loss for the period	-	-	(691)	(691)
Cancellation of shares relating to capital restructuring[1]	-	-	-	-
Reduction in face value of Ordinary shares[2]	-	-	-	-
Transfer of Participating shares relating to capital restructuring	(3,951)	3,951	-	-
Transfer of Preference shares relating to capital restructuring	(5,235)	5,235	-	-
Issuance of Participating shares relating to capital restructuring	581	(581)		-
Conversion of subordinated debt to Participating shares relating to capital restructuring	329	2,634	-	2,963
Issue of Participating shares	1,759	444	-	2,203
Balance at 31 December 2012	**3,108**	**12,699**	**(230)**	**15,577**

	Share Capital	Share Premium	Retained Earnings	Total
Bank statement of changes in equity (USD million)				
Balance at 1 January 2011	**9,625**	**1,016**	**733**	**11,374**
Loss for the period	-	-	(272)	(272)
Balance at 31 December 2011	**9,625**	**1,016**	**461**	**11,102**

There were no dividends paid during 2012 (2011: Nil).

The notes on pages 26 to 131 form an integral part of the Financial Statements.

[1] The cancellation is USD 200 but shown as Nil as the statement is presented in USD million.
[2] The reduction is USD 112 but shown as Nil as the statement is presented in USD million.

Consolidated Statement of Cash Flows For the Year ended 31 December 2012

	Reference to notes	2012	2011
Cash flows from operating activities (USD million)			
Loss before tax for the period		(359)	(193)
Adjustments to reconcile net loss to net cash used in operating activities			
Non-cash items included in net loss before tax and other adjustments:			
Impairment, depreciation and amortisation	22,23	218	196
Disposal of property and equipment	23	1	2
Disposal of intangible assets	22	2	1
Accrued interest on long term debt	5	585	685
(Release of allowance for loan losses)/Provision for credit losses	7	(44)	23
Impairment on loan commitments		(5)	(1)
Foreign exchange losses		(17)	(481)
Impairment on investment property	18	21	63
Provisions	26	1	18
Gain on acquisition of PFS business (net of cash acquired)	40	-	(4)
Income from equity method investment		-	(9)
Cash generated before changes in operating assets and liabilities		**403**	**300**
Net decrease/(increase) in operating assets:			
Securities purchased under resale agreements and securities borrowing transactions		5,303	(13,274)
Trading financial assets at fair value through profit or loss		17,399	(115,226)
Financial assets designated at fair value through profit or loss		(1,427)	5,934
Other loans and receivables		883	(8,452)
Other assets		1,787	(9,020)
Net decrease/(increase) in operating assets		**23,945**	**(140,038)**
Net (decrease)/increase in operating liabilities:			
Deposits		1,923	719
Securities sold under repurchase agreements and securities lending transactions		(2,097)	(914)
Trading financial liabilities at fair value through profit or loss		(25,487)	116,923
Financial liabilities designated at fair value through profit or loss		5,292	(2,944)
Short term borrowings		(3,024)	13,718
Other liabilities and provisions		2,116	5,385
Share-based compensation		11	(55)
Net (decrease)/increase in operating liabilities		**(21,266)**	**132,832**
Income taxes refund		3	180
Income taxes paid		(3)	(4)
Net cash generated from/(used in) operating activities		**3,082**	**(6,730)**
Cash flows from investing activities (USD million)			
Capital expenditures for property, equipment and intangible assets	22,23	(247)	(278)
Sale of equity method investment		-	656
Acquisition of PFS business (net of cash acquired)	40	-	(410)
Net cash used in investing activities		**(247)**	**(32)**
Cash flows from financing activities (USD million)			
Issuances of long term debt		2,341	2,977
Repayments of long term debt		(946)	(1,913)
Issue of shares	28	2,202	-
Increase in noncontrolling interest		22	-
Net cash generated from financing activities		**3,619**	**1,064**
Net increase/(decrease) in cash and due from banks		**6,454**	**(5,698)**
Cash and due from banks at beginning of period		12,568	18,266
Cash and due from banks at end of period		**19,022**	**12,568**
Cash and due from banks		18,690	14,795
Interest-bearing deposits with banks		2,525	1,496
Demand deposits	24	(2,193)	(3,723)
Cash and due from banks at end of period		**19,022**	**12,568**

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

Bank Statement of Cash Flows For the Year ended 31 December 2012

	Reference to notes	2012	2011
Cash flows from operating activities (USD million)			
Loss before tax for the period		(319)	(187)
Adjustments to reconcile net loss to net cash used in operating activities			
Non-cash items included in net loss before tax and other adjustments:			
Depreciation and amortisation	22,23	218	196
Disposal of property and equipment	23	1	2
Disposal of intangible assets	22	2	1
Accrued interest on long term debt	5	585	685
(Release of allowance for loan losses)/Provision for credit losses	7	(44)	23
Impairment on loan commitment		(5)	(1)
Foreign exchange losses		(35)	(512)
Provisions	26	1	18
Gain on acquisition of PFS business (net of cash acquired)	40	-	(4)
Cash generated before changes in operating assets and liabilities		**404**	**221**
Net decrease /(increase) in operating assets:			
Securities purchased under resale agreements and securities borrowing transactions		5,303	(13,274)
Trading financial assets at fair value through profit or loss		17,649	(114,542)
Financial assets designated at fair value through profit or loss		(1,427)	7,731
Other loans and receivables		884	(8,458)
Other assets		1,770	(7,786)
Net decrease /(increase) in operating assets		**24,179**	**(136,329)**
Net (decrease)/increase in operating liabilities:			
Deposits		1,923	719
Securities sold under repurchase agreements and securities lending transactions		(2,097)	(914)
Trading financial liabilities at fair value through profit or loss		(26,033)	117,133
Financial liabilities designated at fair value through profit or loss		5,499	(4,713)
Short term borrowings		(3,024)	13,504
Other liabilities and provisions		2,125	4,379
Share-based compensation		16	(52)
Net (decrease)/increase in operating liabilities		**(21,591)**	**130,056**
Income taxes refund		3	97
Income taxes paid		(3)	(4)
Net cash generated from/(used in) operating activities		**2,992**	**(5,959)**
Cash flows from investing activities (USD million)			
Capital expenditures for property, equipment and intangible assets	22,23	(248)	(263)
Acquisition of PFS business (net of cash acquired)	40	-	(410)
Investment in subsidiary		-	17
Net cash used in investing activities		**(248)**	**(656)**
Cash flows from financing activities (USD million)			
Issuances of long term debt		2,335	2,954
Repayments of long term debt		(919)	(1,895)
Issue of shares	28	2,202	-
Net cash generated by financing activities		**3,618**	**1,059**
Net increase/(decrease) in cash and due from banks		**6,362**	**(5,556)**
Cash and due from banks at beginning of period		12,523	18,079
Cash and due from banks at end of period		**18,885**	**12,523**
Cash and due from banks		18,553	14,750
Interest-bearing deposits with banks		2,525	1,496
Demand deposits	24	(2,193)	(3,723)
Cash and due from banks at end of period		**18,885**	**12,523**

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

Notes to the consolidated financial statements

Notes to the Financial Statements for the Year ended 31 December 2012

1. General

Credit Suisse International ('CSi' or the 'Bank') is a bank domiciled in the United Kingdom. The address of the Bank's registered office is One Cabot Square, London, E14 4QJ. The Consolidated Financial Statements for the year ended 31 December 2012 comprise CSi and its subsidiaries (together referred to as the 'CSi group').

2. Significant Accounting Policies

a) Statement of compliance

Both the Bank financial statements and the CSi group financial statements have been prepared on a going concern basis and approved by the Directors in accordance with International Financial Reporting Standards as adopted by the EU ('Adopted IFRS'). On publishing the parent company financial statements here together with the CSi group financial statements, the Bank is taking advantage of the exemption in s408 of the Companies Act 2006 not to present its individual Statement of Income and related notes.

b) Basis of preparation

The Consolidated Financial Statements are presented in United States dollars (USD) rounded to the nearest million. They are prepared on the historical cost basis except that the following assets and liabilities are stated at their fair value: derivative financial instruments, financial instruments held for trading, financial instruments that are hedged as part of a designated hedging relationship and financial instruments designated by the CSi group as at fair value through profit or loss.

The preparation of financial statements in conformity with adopted IFRS requires management to make judgements, estimates and assumptions that affect the application of policies and reported amounts of assets and liabilities, income and expenses. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making the judgements about carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates. Critical accounting estimates and judgements applied to these Financial Statements are set out in Note 3 – Critical Accounting Estimates and Judgements in Applying Accounting Policies.

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

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

Standards and Interpretations effective in the current period

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

- Amendments to IFRS 7, "Financial Instruments-Disclosures" – Transfers of Financial Assets: The amendments improved the understanding of transfer transactions of financial assets (for example, securitisations) by users of financial statements, including understanding the possible effects of any risks that may remain with the entity that transferred the assets. The amendments also require additional disclosures if a disproportionate amount of transfer transactions are undertaken around the end of a reporting period. The amendments were effective for annual periods beginning on or after 1 July 2011. As the amendments are for disclosures only, the adoption of the standard did not have a material impact on the CSi group's financial position, results of operation or cash flows.

Standards and Interpretations endorsed by the EU and not yet effective

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

- Amendments to IAS 1 Presentation of Items of Other Comprehensive Income: In June 2011, the IASB issued "Presentation of Items of Other Comprehensive Income" (Amendments to IAS 1). The amendments require entities to group together items within Other Comprehensive Income that will and will not subsequently be reclassified to the profit or loss section of the income statement. The amendments also reaffirm existing requirements that items in Other Comprehensive Income and profit or loss should be presented as either a single statement or two consecutive statements. The amendments are effective for annual periods beginning on or after 1 July 2012. As the amendments impact presentation only, they will not have a material impact on the CSi group's financial position, results of operations or cash flows.

- Amendments to IAS 19 Employee Benefits: In June 2011, the IASB issued Amendments to IAS 19 "Employee Benefits" (IAS 19). Among other changes, the amendments eliminate the option that allowed an entity to defer the recognition of changes in net defined benefit liability and amend the disclosure requirements for defined benefit plans and multi-employer plans. The amendments are effective for annual periods beginning on or after 1 January 2013. The CSi group participates in defined benefit plans that are CS group schemes, in which the CSi group is not the sponsoring entity, therefore no retirement benefit obligation is recognised in the Statement of Financial Position and defined contribution accounting is applied. As a result, the application of IAS19R will not have a material impact on CSi group's financial position, results of operation or cash flows.

- IFRS 10 Consolidated Financial Statements: In May 2011, the IASB issued IFRS 10, "Consolidated Financial Statements" (IFRS 10). The objective of IFRS 10 is to establish principles for the presentation and preparation of consolidated financial statements when an entity controls one or more other entities. IFRS 10 builds on existing principles by identifying the concept of control as the determining factor in whether an entity should be included within the consolidated financial statements of the parent company. The standard provides additional guidance to assist in the determination of control where this may be difficult to assess. IFRS 10 is effective for annual periods beginning on or after 1 January 2013, however, the EU requires adoption for annual periods beginning on or after 1 January 2014. The CSi group is currently evaluating the impact of adopting IFRS 10.

- IFRS 11 Joint Arrangements: In May 2011, the IASB issued IFRS 11 "Joint Arrangements" (IFRS 11). IFRS 11 specifies that a party to a joint arrangement determines the type of joint arrangement in which it is involved by assessing its rights and obligations. IFRS 11 is effective for annual periods beginning on or after 1 January 2013, however, the EU requires adoption for annual periods beginning on or after 1 January 2014. The CSi group is currently evaluating the impact of adopting IFRS 11.

- IFRS 12 Disclosure of Interests in Other Entities: In May 2011, the IASB issued IFRS 12 "Disclosures of Interests in Other Entities" (IFRS 12). IFRS 12 requires entities to disclose information that enables users of the financial statements to evaluate the nature of and any associated risks of its interests in other entities and the effects of those interests on its financial position, financial performance and cash flows. IFRS 12 requires certain disclosures, for subsidiaries, joint arrangements and associates and introduces new requirements for unconsolidated structured entities. IFRS 12 is effective for annual periods beginning on or after 1 January 2013, however, the EU requires adoption for annual periods beginning on or after 1 January 2014. As IFRS 12 requires disclosures only it will not have a material impact on the CSi group's financial position, results of operation or cash flows.

- IFRS 13 Fair Value Measurement: In May 2011, the IASB issued IFRS 13 "Fair Value Measurement" (IFRS 13). IFRS 13 defines fair value, sets out a framework for measuring fair value and requires certain disclosures about fair value measurements. IFRS 13 applies to IFRSs that require or permit fair value measurements or disclosures about fair value measurements, except in specified circumstances. IFRS 13 is effective for annual periods beginning on or after 1 January 2013. The adoption of IFRS 13 on 1 January 2013 resulted in a charge to the income statement of USD 104m as a result of a change in application of valuation methodology in marking instruments within the bid-offer spread.

- IFRS 7 Disclosures- Offsetting Financial Assets and Financial Liabilities: In December 2011, the IASB issued amendments to IFRS 7 "Disclosures – Offsetting Financial Assets and Financial Liabilities" (IFRS 7). The amendments require disclosures about the effect or potential effects of offsetting financial assets and financial liabilities and related arrangements on an entity's financial position. The amendments are effective for annual periods beginning on or after 1 January 2013. As the amendment requires disclosures only it will not have a material impact on the CSi group's financial position, results of operations or cash flows.

- IAS 32 Offsetting Financial Assets and Financial Liabilities: In December 2011, the IASB issued amendments to IAS 32 "Offsetting Financial Assets and Financial Liabilities" (IAS 32). The amendments address inconsistencies in current practice when applying the offsetting criteria in IAS 32 'Financial Instruments – Presentation'. The amendments are effective for annual periods beginning on or after 1 January 2014. The CSi group is currently evaluating the impact of adopting the IAS 32 amendments.

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. The effective date of IFRS 9 was revised in December 2011, making it applicable for annual periods beginning 1 January 2015. The CSi group is currently evaluating the impact of adopting IFRS 9.

- Improvements to IFRS 2012: In May 2012,The IFRS issued "Annual Improvements to IFRSs 2009-2011 Cycle" (Improvements to IFRS), which contain numerous amendments to IFRS that the IASB considers non-urgent but necessary. The Improvements to IFRS comprise amendments that result in accounting changes for presentation recognition or measurement purposes, as well as terminology or editorial amendments related to a variety of individual standards. The Improvements to IFRS are required to be applied retrospectively for annual periods beginning on or after 1 January 2013. The CSi group is currently evaluating the impact of the amendments.

- Transition guidance for IFRS 10, IFRS 11 and IFRS 12: In June 2012, the IASB issued "Consolidated Financial Statements, Joint Arrangements and Disclosure of Interest in Other Entities; Transition Guidance" (Amendments to IFRS 10, IFRS 11 and IFRS 12). The amendments are intended to provide additional transition relief in IFRS 10, IFRS 11 joint

Arrangement and IFRS 12 Disclosure of Interest in Other Entities, by "limiting the requirement to provide adjusted comparative information to only the preceding comparative period". Also, amendments were made to IFRS 11 and IFRS 12 to eliminate the requirement to provide comparative information for periods prior to the immediately preceding period. The Amendments to IFRS 10, IFRS 11 and IFRS 12 are effective for annual periods beginning on or after 1 January 2013. The CSi group will adopt the requirements of this amendment when the provision of IFRS 10, IFRS 11 and IFRS 12 are adopted. The CSi group is currently evaluating the impact of adopting the Amendments to IFRS 10, IFRS 11 and IFRS 12.

- Investment Entities (Amendments to IFRS 10, IFRS 12 and IAS 27): In October 2012, the IASB issued "Investment Entities Amendments to IFRS 10, IFRS 12 and IAS 27" (Investment Entities Amendment). Under IFRS 10, reporting entities were required to consolidate all investees they control, however the Investment Entities Amendment provides an exception and requires investment entities to measure particular subsidiaries at fair value through profit or loss, rather than consolidate them. The Investment Entities Amendment sets out disclosure requirements for investment entities. The Investment Entities Amendment is effective from 1 January 2014 with early adoption permitted. The CSi group is currently evaluating the impact of adopting the Investment Entities Amendment.

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

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

c) Basis of consolidation

The Consolidated Financial Statements include the results and positions of the CSi group and its subsidiaries (including special purpose entities). The Consolidated Financial Statements include the Statement of Income, Statement of Financial Position, Statement of Cash Flows, Statement of Changes in Equity and the related Notes of the CSi group.

A subsidiary is an entity in which the CSi group holds, directly or indirectly, more than 50% of the outstanding voting rights, or which it otherwise has the power to control. Control is achieved where the CSi group has the power to govern the financial and operating policies of an investee entity so as to obtain benefits from its activities. In assessing control, the potential voting rights that presently are exercisable are taken into account. The results of subsidiaries acquired are included in the consolidated financial statements from the date that control commences until the date that control ceases. The CSi group reassesses consolidation status at least every quarterly reporting date.

The CSi group also consolidates subsidiaries when the substance of the relationship between the CSi group and the subsidiary indicates that the subsidiary is controlled by the CSi group in accordance with the Standing Interpretations Committee Interpretation (SIC) No. 12, 'Consolidation – Special Purpose Entities' (SIC 12). The acquisition method of accounting is used to account for the acquisition of subsidiaries. The cost of an acquisition is measured at the fair value of the assets given, equity instruments issued and liabilities incurred or assumed. Acquisition related costs such as legal or consulting fees are expensed in the period in which they are incurred. The excess of the cost of an acquisition over the CSi group's share of the fair value of the identifiable net assets acquired is recorded as goodwill. If the acquisition cost is below the fair value of the identifiable net assets (negative goodwill), a gain may be reported in other income.

The effects of intercompany transactions and balances have been eliminated in preparing the Consolidated Financial Statements. Noncontrolling interests are presented in the Consolidated Statement of Financial Position as a separate component of equity. Net profit attributable to noncontrolling interests is shown separately in the Consolidated Statement of Income.

d) Equity method investments

An equity method investment is an entity in which the CSi group has significant influence, but not control, over the operating and financial management policy decisions. This is generally demonstrated by the CSi group holding in excess of 20%, but no more than 50%, of the voting rights. In assessing significant influence, potential voting rights that are presently exercisable are taken into account. Other factors that are considered in determining whether the CSi group has significant influence over another entity include representation on the board of directors, the interchange of managerial personnel and material intercompany transactions between the CSi group and the entity. Consideration of those factors might indicate that the CSi group has significant influence over another entity even though the CSi group's investment is for less than 20% of the voting rights.

Equity method investments are initially recorded at cost and increased (or decreased) each year by the CSi group's share of the post-acquisition net income (or loss), or other movements reflected directly in the equity of the equity method investment. Goodwill arising on the acquisition of an equity method investment is included in the carrying amount of the investment. When the CSi group's share of losses in an equity method investment equals or exceeds the recorded share of profits, including any other unsecured long-term receivables, the CSi group does not recognise further losses, unless it has incurred obligations or made payments on behalf of the entity.

e) Foreign currency

The Bank's functional currency is United States Dollars ('USD'). Transactions denominated in currencies other than the functional currency of the reporting entity are translated at the foreign exchange rate ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies at the reporting date are translated to USD at the foreign exchange rate ruling at that date. Foreign exchange differences arising from translation are recognised in the Consolidated Statement of Income. Non-monetary assets and liabilities denominated in foreign currencies at the reporting date are not revalued for movements in foreign exchange rates.

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

f) Cash and due from banks

For the purpose of preparation and presentation of Consolidated Statement of Cash Flows, cash and cash equivalents comprise the components of cash and due from banks that are short term, highly liquid instruments with original maturities of three months or less which are subject to an insignificant risk of changes in their fair value and that are held or utilised for the purpose of cash management.

Where cash is received or deposited as collateral, the obligation to repay or the right to receive that collateral is recorded in 'Other assets' or 'Other liabilities'.

The CSi group holds money on behalf of clients in accordance with the client money rules of the UK's FSA. This money is included within 'Cash and due from banks' on the Statement of Financial Position and the corresponding liability is included in 'Other liabilities'.

g) Securities purchased or sold under resale or repurchase agreements

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

Securities received under reverse repurchase agreements and securities delivered under repurchase agreements are not recognised or derecognised unless all or substantially all the risks and rewards are obtained or relinquished. The CSi group monitors the market value of the securities received or delivered on a daily basis and provides or requests additional collateral in accordance with the underlying agreements.

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

h) Securities borrowing and lending transactions

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

The CSi group monitors the market value of the securities borrowed and lent on a daily basis and provides or requests additional collateral in accordance with the underlying agreements. Fees are recognised on an accrual basis and interest received or paid is recognised on an effective yield basis and recorded as interest income or interest expense.

i) Derivative financial instruments and hedging

All freestanding derivative contracts are carried at fair value in the Consolidated Statement of Financial Position regardless of whether these instruments are held for trading or risk management purposes.

Derivatives classified as trading assets and liabilities include those held for trading purposes and those used for risk management purposes that do not qualify for hedge accounting. Derivatives held for trading purposes arise from proprietary trading activity and from customer-based activity, with changes in fair value included in 'Net gains/(losses) from financial assets/liabilities at fair value through profit or loss'. Derivative contracts, which are both designated and qualify for hedge accounting, are reported in the Consolidated Statement of Financial Position as 'Other assets' or 'Other liabilities' and hedge accounting is applied.

The fair value recorded for derivative instruments does not indicate future gains or losses, but rather the unrealised gains and losses from valuing all derivatives at a particular point in time. The fair value of exchange-traded derivatives is typically derived from observable market prices and/or observable market parameters. Fair values for OTC derivatives are determined on the basis of internally developed proprietary models using various input parameters. Where the input parameters cannot be validated using observable market data, reserves are established for unrealised gains or losses evident at the inception of the contracts so that no gain or loss is recorded at inception. Such reserves are amortised to income over the life of the instrument or released into income when observable market data becomes available. For further information on fair value determination of derivative instruments, refer to Note 36 – Financial Instruments.

Embedded derivatives

When derivative features embedded in certain contracts that meet the definition of a derivative are not considered clearly and closely related to the host instrument, the embedded feature will be accounted for separately at fair value, with changes in fair value recorded in the Consolidated Statement of Income unless, consistent with the provisions of IAS 39, the fair value option is elected (as described in Note 2 (j) below) or the entire hybrid instrument is classified as held for trading, in which case the entire instrument is recorded at fair value with changes in fair value recorded in the Consolidated Statement of Income. Once separated, the derivative is recorded in the same line in the Consolidated Statement of Financial Positions as the host instrument.

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

The CSi group classifies certain financial assets and liabilities as either held for trading or designated at fair value through profit or loss. Financial assets and liabilities with either classification are carried at fair value. Fair value is defined as the amount for which an asset could be exchanged or a liability settled between knowledgeable, willing parties in an arm's length transaction other than an involuntary liquidation or distressed sale. Quoted market prices are used when available to measure fair value. In cases where quoted market prices are not available, fair value is estimated using valuation techniques consistent with those used in the financial markets. Where the input parameters cannot be validated using observable market data, reserves are established for unrealised gains or losses evident at the inception of the contracts so that no gain or loss is recorded at inception. Such reserves are amortised to income over the life of the instrument or released into income when observable market data becomes available.

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

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

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

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

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

(i) it eliminates or significantly reduces an inconsistency in measurement or recognition (sometimes referred to as an 'accounting mismatch') that would otherwise arise from measuring assets or liabilities or recognising the gains and losses on them on different bases. This election is used for instruments that would otherwise be accounted for under an accrual method of accounting where their economic risks are hedged with derivative instruments that require fair value accounting. This election eliminates or significantly reduces the measurement mismatch between accrual accounting and fair value accounting;

(ii) a group of financial assets, financial liabilities or both is managed and its performance is evaluated on a fair value basis, in accordance with a documented risk management or investment strategy, and information about the CSi group is provided internally on that basis to the entity's key management personnel. This election is used for instruments purchased or issued by business units that manage their performance on a fair value basis. For all instruments elected under this criterion, the business maintains a documented strategy that states that these instruments are risk managed on a fair value basis. Additionally, management relies upon the fair value of these instruments in evaluating the performance of the business.

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

k) Recognition and derecognition

Recognition

The CSi group recognises financial instruments on its Consolidated Statement of Financial Position when the CSi group becomes a party to the contractual provisions of the instrument.

Regular-way securities transactions

A regular-way purchase or sale is a purchase or sale of a financial asset under a contract whose terms require delivery of the asset within the time frame established generally by regulation or convention in the marketplace concerned. The CSi group recognises regular-way purchases or sales of financial assets at the settlement date unless the instrument is a derivative or designated at fair value through profit or loss, in which case trade date accounting applies.

Derecognition

The CSi group enters into transactions where it transfers assets recognised on its Consolidated Statement of Financial Position, but retains either all risks and rewards of the transferred assets or a portion of them. If all or substantially all risks and rewards are retained, the transferred assets are not derecognised from the Consolidated Statement of Financial Position. Transactions where substantially all risk and rewards are retained include securities purchased or sold under repurchase agreements, securities borrowing and lending transactions, and sales of financial assets with concurrent return swaps on the transferred assets.

In transactions where the CSi group neither retains nor transfers substantially all risks and rewards of ownership of a financial asset, it derecognises the asset if control over the asset is lost. The rights and obligations retained in the transfer are recognised separately as assets and liabilities as appropriate. In transfers where control over the asset is retained, the CSi group continues to recognise the asset to the extent of its continuing involvement, determined by the extent to which it is exposed to changes in the value of the transferred asset.

The CSi group derecognises a financial liability when its contractual obligations are discharged or cancelled or expire. Where the CSi group has a financial liability and a financial instrument is exchanged for a new financial instrument with the same counterparty, which is substantially different, or when an existing financial instrument classified as a financial liability is substantially modified, the old financial instrument is deemed to be extinguished and a new financial liability is recognised. Any gain or loss due to derecognition of the extinguished instrument is recorded in the Consolidated Statement of Income. Where a modification and not an extinguishment is deemed to have occurred, the difference is adjusted to the carrying value of the new instrument and reclassified into income using the effective interest method.

Securitisation

The CSi group securitises assets, which generally results in the sale of these assets to special purpose entities, which in turn issue securities to investors. The transferred assets may qualify for derecognition in full or in part, under the above mentioned policy on derecognition of financial assets.

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

l) Other loans and receivables

Other loans and receivables are initially recorded at fair value, plus any directly attributable transaction costs and subsequently are amortised on an effective interest method, less impairment losses. In the event of an impairment loss the effective interest will be re-estimated.

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

Impairment on other loans and receivables

The CSi group assesses at each statement of financial position date whether there is objective evidence that a significant loan position or a portfolio of loans is impaired. A significant individual loan position or portfolio of loans is impaired and impairment losses are incurred if, and only if, there is objective evidence of impairment as a result of one or more loss events that occurred after the initial recognition of the asset and prior to the statement of financial position date ('a loss event') and that loss event or events has had an impact on the estimated future cash flows of the financial asset or the portfolio that can be reliably estimated.

All individually significant loans are assessed for specific impairment. Individually significant loans found not to be impaired are then collectively assessed for impairment that has incurred, but not yet been identified. Loans that are not individually significant are assessed collectively for impairment. Loans subject to collective impairment testing are grouped to loan portfolios on the basis of similar risk, industry or country rating. Objective evidence that an individual loan is impaired can include significant financial difficulty of the borrower, default or delinquency by the borrower and indications that a borrower will enter bankruptcy. Objective evidence that a loan portfolio is impaired can include changes of the payment status of borrowers in the CSi group or economic conditions that correlate with defaults in the CSi group.

Many factors can affect the CSi group's estimate of the impairment losses on loans, including volatility of default probabilities, rating migrations and loss severity. The estimate of the component of the allowance for specifically identified credit losses on impaired loans is based on a regular and detailed analysis of each loan in the portfolio considering collateral and counterparty risk. For certain non-collateral dependent impaired loans, impairment charges are measured using the present value of estimated future cash flows discounted at the asset's original effective interest rate. For collateral dependent impaired loans, impairment charges are measured using the value of the collateral. The estimation of impairment for a loan portfolio involves applying historical loss experience, adjusted to reflect current market conditions, to homogeneous loans based on risk rating and product type.

The estimation of impairment for a loan portfolio involves applying historical loss experience, adjusted to reflect current market conditions, to homogeneous loans based on risk rating and product type. The amount of the loss is recognised in the Consolidated Statement of Income in 'Provision for credit losses'. The methodology and assumptions used for estimating future cash flows are reviewed regularly to reduce any differences between loss estimates and actual loss experience. An allowance for impairment is reversed only if the amount of the impairment loss decreases and the decrease can be objectively related to an event occurring after the impairment was recognised.

Write-off of loans

When it is considered certain that there is no realistic prospect of recovery and all collateral has been realised or transferred to the CSi group, the loan and any associated allowance is written off. Any repossessed collateral is initially measured at fair value. The subsequent measurement will depend on the nature of the collateral.

Renegotiated loans

Where possible, the CSi group seeks to restructure loans rather than to take possession of collateral. This may involve extending the payment arrangements and the agreement of modified loan conditions. Once the terms have been renegotiated any impairment is measured using the effective interest rate as calculated before the modification of terms and the loan is no longer considered past due. Management continuously reviews renegotiated loans to ensure that all criteria are met and that future payments are likely to occur. The loans continue to be subject to an individual or collective impairment assessment, calculated using the loan's original effective interest rate.

Loan commitments

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

m) Netting

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

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

In many instances the CSi group's net position on multiple transactions with the same counterparty is legally protected by Master Netting Agreements. Such agreements normally ensure that the net position is settled in the event of default of either counterparty and effectively limits credit risk on gross exposures. However, if the transactions themselves are not intended to be settled net, nor will they settle simultaneously, it is not permissible under IAS 32, to offset transactions falling under Master Netting Agreements.

n) Income tax

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

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

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

Deferred tax is provided using the Statement of Financial Position liability method, providing for temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and their tax-base. The amount of deferred tax provided is based on the amount at which it is expected to recover or settle the carrying amount of assets and liabilities on the Consolidated Statement of Financial Position, using tax rates that are expected to be applied to the temporary differences when they reverse, based on the laws that have been enacted or substantively enacted at the Consolidated Statement of Financial Position date.

Deferred tax is not recognised for the following temporary differences: the initial recognition of assets or liabilities in a transaction that is not a business combination and that affects neither accounting nor taxable profit or loss and differences relating to investments in subsidiaries and jointly controlled entities to the extent that it is probable that they will not reverse in the foreseeable future. In addition, deferred tax is not recognised for taxable temporary differences arising on the initial recognition of goodwill.

A deferred tax asset is recognised only to the extent that it is probable that future taxable profits will be available against which the asset can be utilised. Deferred tax assets are reduced to the extent that it is no longer probable that the related tax benefit will be realised. Tax assets and liabilities of the same type (current or deferred) are offset when they arise from the same tax reporting group, they relate to the same tax authority, the legal right to offset exists, and they are intended to be settled net or realised simultaneously.

Additional income taxes that arise from the distribution of dividends are recognised at the same time as the liability to pay the related dividend arises. Information as to the calculation of income tax recognised in Statement of Income for the periods presented is included in Note 12 Income Tax.

Tax contingencies

Significant judgement is required in determining the effective tax rate and in evaluating certain tax positions. The CSi group may accrue for tax contingencies despite the belief that positions taken in tax returns are always fully supportable. Tax contingency accruals are adjusted due to changing facts and circumstances, such as case law, progress of tax authority audits or when an event occurs that requires a change to the tax contingency accruals. Management regularly assesses the appropriateness of provisions for income taxes. Management believes that it has appropriately accrued for any contingent tax liabilities.

o) Investment property

Investment property is initially measured at cost, and subsequent to initial recognition is measured using the cost model.

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

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

p) Intangible assets

Intangible assets consist primarily of internally developed software. Expenditure on internally developed software is recognised as an asset when the CSi group is able to demonstrate its intention and ability to complete the development and use the software in a manner that will generate future economic benefits, and can reliably measure the costs to complete the development. The capitalised costs of internally developed software include all costs directly attributable to developing the software. Also included within intangible assets is the customer list which was acquired as part of the PFS ('Prime Fund Solutions') acquisition and the capitalised cost is the fair value at the date of acquisition.

Intangible assets are stated at cost less accumulated depreciation and impairment losses, and are depreciated over an estimated useful life of three years using the straight-line method upon completion, or utilisation for internally developed software and over an estimated useful life of thirteen years using the straight line method for the customer list. The amortisation of the intangible assets is included in the 'General and administrative expenses' in the Consolidated Statement of Income.

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

q) Property and equipment

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

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

Long leasehold buildings	50 years
Leasehold improvements	10 years
Computer equipment	2-7 years
Office equipment	5 years

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

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

r) Preference share capital

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

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

s) Retirement benefit costs

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

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

t) Deposits

Deposits are funds held from customers (both retail and commercial) and banks, generally for the cash safekeeping and/or liquidity needs of those customers. The amount booked to the balance sheet positions represents the nominal values of the deposits less any unearned discounts or nominal value plus any unamortised premiums. Subsequent measurement is at amortised cost.

u) Long term debt

Debt issued by the CSi group is initially measured at fair value, which is the fair value of the consideration received, net of transaction costs incurred. Subsequent measurement is at amortised cost, using the effective interest method to amortise cost at inception to the redemption value over the life of the debt.

Debt with embedded derivatives

The CSi group issues structured notes containing embedded derivatives, most of which have been designated as financial liabilities at fair value through profit or loss. For more information on the criteria that must be met to designate a financial instrument at fair value please refer to the previous section of this disclosure with the same name. Both the host instrument and embedded derivative in these structured notes are remeasured at each reporting period with changes in fair value being reported in ‘Net gains/ (losses) from financial assets/liabilities at fair value through profit or loss’ in the Consolidated Statement of Income.

v) Contingent liabilities

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

w) Provisions

Provisions are recognised for present obligations as a result of past events which can be reliably measured, where it is probable that an outflow of resources embodying economic benefits will be required to settle the obligations. The amount recognised as a provision is the best estimate of the consideration required to settle the present obligation as of the statement of financial position date, taking into account the risks and uncertainties surrounding the obligation. The expense recognised when provisions are established is recorded in ‘General and administrative expenses’ on the Consolidated Statement of Income. Provisions for loan losses are recorded in ‘Provision for credit losses’ in the Consolidated Statement of Income.

x) Share-based payments

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

y) Other compensation plans

The CSi group has other deferred compensation plans which can be in the form of fixed or variable deferred cash compensation. The expense for these awards is recognised over the service period, which is the period the employee is obligated to work in order to become entitled to the cash compensation. Fixed deferred cash compensation is generally awarded in the form of sign-on bonuses and employee forgivable loans. Variable deferred cash compensations are awards where the final cash payout is determined by the performance of certain assets, a division or the CS group as a whole. The awards are expensed over the required service period and accruals are adjusted for changes to the expected final payout

z) Interest income and expense

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

aa) Financial guarantee contracts

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

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

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

bb) Commissions and fees

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

i) The amount of revenue can be measured reliably;

ii) It is probable that the economic benefits associated with the transaction will flow to the entity;

iii) The stage of completion of the transaction at the reporting date can be measured reliably; and

iv) The costs incurred for the transaction and the costs to complete the transaction can be measured reliably.

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

- Income earned on the execution of a significant act is recognised as revenue when the act is completed (for example, fees arising from negotiating, or participating in the negotiation of, a transaction for a third party, such as fees from mergers and acquisitions and other corporate finance advisory services);
- Income earned from the provision of services is recognised as revenue as the services are provided (for example, portfolio management, granting of loan commitments where it is not probable that the CSi group will enter into a specific lending arrangement, customer trading and custody services); and
- Income which forms an integral part of the effective interest rate of a financial instrument is recognised as an adjustment to the effective interest rate (for example, certain loan commitment fees where it is probable that the Group will enter into a specific lending agreement) and recorded in 'Interest income'.
- Performance-linked fees or fee components are recognised when the recognition criteria are fulfilled

Incremental costs that are directly attributable to securing investment management contracts are recognised as an asset if they can be identified separately and measured reliably and if it is probable that they will be recovered. These assets are amortised as the CSi group recognises the related revenue.

ab) Operating leases

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

If the CSi group is the lessor in an operating lease it continues to present the asset subject to the lease in its financial statements and recognises lease income on a straight-line basis over the period of the lease.

Subleases

The subleases entered into by the CSi group are exclusively operating leases. Sublease payments received are recognised through the Consolidated Statement of Income.

ac) Dividends

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

ad) Noncontrolling interest

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

3. Critical Accounting Estimates and Judgements in Applying Accounting Policies

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

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

i) Derivative financial instruments and hedging

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

k) Recognition and derecognition

l) Other loans and receivables

n) Income tax

s) Compensation and benefits

v) Contingent liabilities

w) Provisions

x) Share-based payments

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

Fair Value

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

The fair value of the majority of the CSi group's financial instruments is based on quoted prices in active markets (Level 1) or valuation techniques using observable inputs (Level 2). These instruments include government and agency securities, certain commercial papers (CP), most investment grade corporate debt, certain high grade debt securities, exchange-traded and certain 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 (Level 3). For these instruments, the determination of fair value requires subjective assessment and judgement depending on liquidity, pricing assumptions, the current economic and competitive environment and the risks affecting the specific instrument. In such circumstances, valuation is determined based on management's own judgements about the assumptions that market participants would use in pricing the asset or liability, including assumptions about risk. These instruments include certain OTC derivatives, including equity and credit derivatives, certain corporate equity-linked securities, mortgage-related and collateralised debt obligation (CDO), securities, private equity investments, certain loans and credit products, including leveraged finance, certain syndicated loans and certain high yield bonds, and life finance instruments.

The fair value of financial assets and liabilities is impacted by factors such as benchmark interest rates, prices of financial instruments issued by third parties, commodity prices, foreign exchange rates and index prices or rates. In addition, valuation adjustments are an integral part of the valuation process when market prices are not indicative of the credit quality of a counterparty, and are applied to both OTC derivatives and debt instruments.

The impact of changes in a counterparty's credit spreads (known as credit valuation adjustments or CVA) is considered when measuring the fair value of assets and the impact of changes in the CSi group's own credit spreads (known as debit valuation adjustments or DVA) is considered when measuring the fair value of its liabilities.

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

For hybrid debt instruments with embedded derivative features, the impact of changes in the CSi group's credit standing is considered when measuring their fair value, based on current funded debt spreads.

As of the end of 2012, 83.3% and 83.2% of CSi group's total assets and total liabilities respectively, were measured at fair value (2011: 83.3% and 83.1%, respectively). Level 3 assets were USD 12.6 billion as of the end of 2012 (2011: USD 20.5 billion). As of the end of 2012, these assets comprised 1.82% of total assets (2011: 2.9%) and 2.18% of total assets measured at fair value (2011: 3.5%).

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

During 2012, the CSi group changed the estimate for the valuation of certain Fixed Income and equity related collateralised derivative instruments. In determining the fair value of these derivatives, the OIS yield curve is now used to discount future expected cash flows as opposed to the LIBOR, which was used in prior periods. This change in estimate resulted in a loss of USD 109 million.

The CSi group does not recognise a dealer profit or unrealised gain or loss at the inception of a derivative or non-derivative transaction unless the valuation underlying the unrealised gain or loss is evidenced by quoted market prices in an active market, observable prices of other current market transactions, or other observable data supporting a valuation technique in accordance with IAS 39 AG 76.

Control processes are applied to ensure that the fair value of the financial instruments reported in the Bank and CSi group Financial Statements, including those derived from pricing models, are appropriate and determined on a reasonable basis. These control processes include the review and approval of new instruments, review of profit and loss at regular intervals, risk monitoring and review, price verification procedures and reviews of models used to estimate the fair value of financial instruments by senior management and personnel with relevant expertise who are independent of the trading and investment functions.

Special Purpose Entities

As part of normal business, CSi group engages in various transactions that include entities which are considered Special Purpose Entities ('SPEs'). A SPE is an entity which is created to accomplish a narrow and well defined objective, often created with legal arrangements that impose strict and sometimes permanent limits on the decision making powers of their governing board, trustee or management. Such entities are required to be assessed for consolidation under IAS 27 "Consolidated and separate financial instruments" (IAS 27) and its interpretation, SIC-12 "Consolidation-Special Purpose Entities".

Transactions with SPEs are generally executed to facilitate securitisation activities or to meet specific client needs, such as providing liquidity or investment opportunities, and, as part of these activities, the CSi group may hold interests in the SPEs. Securitisation-related transactions with SPEs involve selling or purchasing assets and entering into related derivatives with those SPEs, providing liquidity, credit or other support. Other transactions with SPEs include derivative transactions in the CSi group's capacity as the prime broker for entities qualifying as SPEs. The CSi group also enters into lending arrangements with SPEs for the purpose of financing client projects or the acquisition of assets. Further, the CSi group is involved with SPEs which were formed for the purpose of offering alternative investment solutions to clients. Such SPEs relate primarily to fund-linked vehicles or fund of funds, where the CSi group acts as structurer, manager, distributor, broker, market maker or liquidity provider.

A SPE is consolidated by the CSi group when the substance of the relationship between the CSi group and the SPE indicates that the SPE is controlled by the CSi group. In assessing control, all relevant factors are considered, including qualitative and quantitative factors for example:

Qualitative factors:

(a) In substance, the activities of the SPE are being conducted on behalf of the CSi group according to its specific business needs so that the CSi group obtains benefits from the SPEs operation;

(b) In substance, the CSi group has the decision-making powers to obtain the majority of the benefits of the activities of the SPE or, by setting up an 'autopilot' mechanism, the CSi group has delegated these decision-making powers;

Quantitative factors:

(c) In substance, the CSi group has rights to obtain the majority of the benefits of the SPE and therefore may be exposed to risks incident to the activities of the SPE; or

(d) In substance, the CSi group retains the majority of the residual or ownership risks related to the SPE or its assets in order to obtain benefits from its activities.

Quantitative factors are also known as the majority of the risks and rewards of ownership.

In the majority of cases, these SPEs are accounted for off-balance sheet under IFRS where the CSi group does not have the majority of the risks and rewards of ownership of the SPE.

SPEs may be sponsored by the CSi group, unrelated third parties or clients. Significant management judgement may be required both initially to apply the consolidation accounting requirements and thereafter, if certain events occur that require the CSi group to reassess whether consolidation is required.

Contingencies and loss provisions

According to IAS 37, a provision shall be recognised when (a) an entity has a present obligation (legal or constructive) as a result of a past event; (b) it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation; and (c) a reliable estimate can be made of the amount of the obligation.

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

Litigation contingencies

The CSi group is involved in a variety of legal, regulatory and arbitration matters in connection with the conduct of its businesses.

It is inherently difficult to predict the outcome of many of these matters, particularly those cases in which the matters are brought on behalf of various classes of claimants, seek damages of unspecified or indeterminate amounts or involve questionable legal claims. In presenting the Consolidated Financial Statements, management makes estimates regarding the outcome of legal, regulatory and arbitration matters and takes a charge to income when losses with respect to such matters are probable and can be reasonably estimated. Charges, other than those taken periodically for costs of defence, are not established for matters when losses cannot be reasonably estimated. Estimates, by their nature, are based on judgement and currently available information and involve a variety of factors, including but not limited to the type and nature of the litigation, claim or proceeding, the progress of the matter, the advice of legal counsel and other advisers, the CSi group's defences and its experience in similar cases or proceedings, as well as the CSi group's assessment of matters, including settlements, involving other defendants in similar or related cases or proceedings.

Allowances and impairment losses on other loans and receivables

As a normal part of its business, the CSi group is exposed to credit risks through its lending relationships, commitments and letters of credit and as a result of counterparty risk on derivatives, foreign exchange and other transactions. Credit risk is the risk that a borrower or counterparty is unable to meet its financial obligations. In the event of a default, the CSi group generally incurs a loss equal to the amount owed by the counterparty, less a recovery amount resulting from foreclosure, liquidation of collateral or restructuring of the counterparty's obligation. The CSi group maintains allowances for loan losses which are considered adequate to absorb credit losses existing at the reporting date. These allowances are for incurred credit losses inherent in existing exposures and credit exposures specifically identified as impaired. The inherent loss allowance is for all credit exposures not specifically identified as impaired which, on a portfolio basis, are considered to contain incurred inherent losses. Loans are segregated by risk, industry or country rating in order to collectively estimate inherent losses. The loan valuation allowance for inherent loss is established by analysing historical and current default probabilities, historical recovery assumptions and internal risk ratings. The methodology for calculating specific allowances involves judgements at many levels, such as early identification of deteriorating credits. Extensive judgement is required in order to properly evaluate the various indicators of financial condition of a counterparty and likelihood of repayment.

The CSi group performs an in-depth review and analysis of impaired loans, considering factors such as recovery and exit options as well as considering collateral and counterparty risk. In general, all impaired loans are individually assessed. Corporate & institutional loans are reviewed at least annually based on the borrower's financial statements and any indications of difficulties they may experience. Loans that are not impaired, but which are of special concern due to changes in covenants, downgrades, negative financial news and other adverse developments, are included on a watch list. All loans on the watch list are reviewed at least quarterly to determine whether they should be moved to CSi group recovery management at which point they are reviewed quarterly for impairment. If an individual loan specifically identified for evaluation is considered impaired, the allowance is determined as a reasonable estimate of credit losses existing as of the end of the reporting period. Thereafter, the allowance is revalued by CSi group credit risk management at least annually or more frequently depending on the risk profile of the borrower or credit relevant events.

Retirement Benefit Costs

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

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

The calculation of the expense and liability associated with the defined benefit pension plans requires the extensive use of assumptions, which include the discount rate, expected return on plan assets and rate of future compensation increases as determined by CSSEL. Management determines these assumptions based upon currently available market and industry data and the historical performance of the plans and their assets. Management also consults with an independent actuarial firm to assist in selecting appropriate assumptions and valuing its related liabilities. The actuarial assumptions used by CSSEL may differ materially from actual results due to changing market and economic conditions, higher or lower withdrawal rates or longer or shorter life spans of the participants. Any such differences could have a significant impact on the amount of pension expense recorded in future years.

CSSEL is required to estimate the expected return on plan assets, which is then used to compute the pension cost recorded in the Consolidated Statement of Income. Estimating future returns on plan assets is particularly subjective since the estimate requires an assessment of possible future market returns based on the plan asset mix and observed historical returns. These estimates are determined together with the plan investment and actuarial advisors.

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

Taxes

Tax contingencies

Significant judgement is required in determining certain tax positions. The CSi group may accrue for tax contingencies despite the belief that positions taken in tax returns are always fully supportable. Tax contingency accruals are adjusted due to changing facts and circumstances, such as case law, progress of tax authority audits or when an event occurs that requires a change to the tax contingency accruals. Management regularly assesses the appropriateness of provisions for income taxes. Management believes that it has appropriately accrued for any contingent tax liabilities.

Deferred tax valuation

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

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

Share-based payments

The CSi group uses the liability method to account for its share-based compensation plans, which requires the CSi group's obligation under these plans to be recorded at its current estimated fair value. Share awards and share unit awards that contain market conditions are marked-to-market based on the latest share price information reflecting the terms of the award. Share unit awards that contain earnings performance conditions are marked-to-market based on CSG's actual earnings performance to date and CSG's internal earnings projections over the remaining vesting period of the award. In determining the final liability, CSG also estimates the number of forfeitures over the life of the plan based on management's expectations for future periods, which also considers past experience.

Transfer Pricing

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

4. Segmental Analysis

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

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

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

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

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

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

	2012	2011
Revenues (USD million)		
Fixed income	1,829	1,767
Equities	789	744
Investment banking	226	227
Total revenues	**2,844**	**2,738**

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

	2012	2011
Revenues (USD million)		
EMEA[1]	2,035	1,667
America	673	611
Switzerland	(14)	1
Asia	150	459
Total revenues	**2,844**	**2,738**

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

CSi Group Assets:

Non-current assets, other than financial instruments, deferred tax assets, post-employment benefit assets and rights arising under insurance contracts, consist of property and equipment, investment property and intangible assets totaling USD 1,248 million (2011: USD 1,265 million), all of which are located in EMEA.

Reconciliation of reportable segment revenues

	2012	2011
IFRS statement of income (USD million)		
Total revenues for reportable segments – MIS	2,844	2,738
Revenue sharing agreements	(734)	(459)
Treasury funding	(662)	(540)
Other corporate items[1]	(280)	43
CS group to primary reporting reconciliations[2]	134	4
Net Revenues	**1,302**	**1,786**

1 Significant item being fair value changes in issued structured notes due to changes in the CSi group's own creditworthiness.

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.

5. Net Interest Expense

Group	**2012**	**2011**
Net interest expense (USD million)		
Other loans and receivables	572	677
Securities purchased under resale agreements and securities borrowing transactions	162	150
Cash collateral paid on OTC derivatives transactions	142	283
Interest income on cash, cash equivalents and loans	201	175
Interest income	**1,077**	**1,285**
Deposits	(4)	(4)
Short term borrowings	(426)	(314)
Securities sold under repurchase agreements and securities lending transactions	(88)	(56)
Long term debt	(585)	(685)
Cash collateral received on OTC derivatives transactions	(145)	(308)
Interest expense	**(1,248)**	**(1,367)**
Net interest expense	**(171)**	**(82)**

Interest income accrued on impaired financial assets during the year was USD 5 million (2011: USD 8 million).

6. Commissions and Fees Income/(Expense)

Group	2012	2011
Commission and fees income/(expense) (USD million)		
Lending business	173	184
Other customer services	(171)	(222)
Net commission and fee income/(expense)	**2**	**(38)**
Total commission and fee income	173	184
Total commission and fee expense	(171)	(222)
Net commission and fee income/(expense)	**2**	**(38)**

7. Release of provision/(Provision) for Credit Losses

Group	2012	2011
Release of provision/(Provision) for credit losses (USD million)		
Allowance for loan losses	39	(23)
Provisions for off-balance sheet exposure	5	-
Release of provision/(Provision) for credit losses	**44**	**(23)**

8. Net Gains From Financial Assets/Liabilities At Fair Value Through Profit or Loss

Group	2012	2011
Net gains from financial assets/liabilities at fair value through profit or loss (USD million)		
Interest rate	4,797	8,901
Foreign exchange	(795)	(6,725)
Equity	(333)	(659)
Commodity	43	327
Credit	(1,608)	428
Other	68	127
Total net gains from financial assets/liabilities at fair value through profit or loss	**2,172**	**2,399**

Of which:

Net losses from financial assets/liabilities designated at fair value through profit or loss (USD) million)	**2012**	**2011**
Securities purchased under resale agreements and securities borrowing transactions	12	(24)
Loans	(489)	(1,887)
Other financial assets designated at fair value through profit or loss	(56)	(76)
Securities sold under repurchase agreements and securities lending transactions	64	203
Short term borrowings	(644)	56
Long term debt	(2,941)	(1,726)
Other financial liabilities designated at fair value through profit or loss	122	38
Total net losses from financial assets/liabilities designated at fair value through profit or loss	**(3,932)**	**(3,416)**

Included in this total is USD 259 million loss (2011: USD 184 million gain) of fair value changes of financial liabilities due to changes in the CSi group's own creditworthiness (Structured Notes and Subordinated Debt, included in Long term debt and Short term borrowings above). The cumulative effect thereon is a gain of USD 141 million (2011: gain USD 400 million).

9. Other Revenues

Group	2012	2011
Other revenues (USD million)		
Revenue sharing agreement expense	(734)	(459)
Income from equity method investments	-	9
Other	(11)	(24)
Other revenues	**(745)**	**(474)**

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

10. Compensation and Benefits

Group	2012	2011
Compensation and benefits (USD million)		
Salaries and variable compensation	(368)	(402)
Social security	(43)	(41)
Pensions	(22)	(17)
Other	(4)	(5)
Compensation and benefits	**(437)**	**(465)**

Included in the above table are amounts relating to Directors' remuneration. Further details are disclosed in Note 31 – Related Parties. Staff costs and staff numbers do not differ between Bank and CSi group.

11. General and Administrative Expenses

Group		2012	2011
General and administrative expenses (USD million)			
Occupancy expenses		(3)	(17)
Amortisation expenses	22	(149)	(117)
Depreciation expenses	23	(69)	(76)
Depreciation for real estate	18	(7)	-
Impairment of Investment property		(14)	-
Provisions	26	(1)	(18)
Brokerage charges and clearing house fees		(298)	(446)
Auditor's Remuneration		(3)	(3)
Professional services		(24)	(29)
Impairment of intangible assets	22	-	(3)
CSG Trademark		(21)	(29)
Net overheads allocated from other CS group entities		(532)	(667)
UK Bank Levy		(38)	(44)
Marketing data , Publicity and Subscription		(21)	(21)
Non Income taxes		(15)	(13)
Other		(29)	(31)
General and administrative expenses		**(1,224)**	**(1,514)**

Auditor's remuneration

Auditor's remuneration in relation to the statutory audit amounted to USD 2.9 million (2011: USD 2.8 million). The following fees were payable by the CSi group to the auditor, KPMG Audit Plc.

	2012 USD'000	2011 USD'000
Csi Auditor's remuneration		
Fees payable to the Bank's auditor for the audit of the Bank's annual accounts	1,894	1,882
Fees payable to the CSi group's auditor and its associates for other services:		
Audit-related assurance services	127	96
Other assurance services	970	818
Total	**2,991**	**2,796**

12. Income Tax

	Group		Bank	
	2012	**2011**	**2012**	**2011**
Current and deferred taxes (USD million)				
Current tax				
Current expense on profits	(3)	(4)	(3)	(4)
Adjustments in respect of previous periods	13	11	13	11
Adjustments in respect of APA	10	-	10	-
Current income tax benefit	**20**	**7**	**20**	**7**
Deferred tax				
Origination and reversal of temporary differences	101	113	101	113
Current year tax losses	(18)	(73)	(18)	(73)
Adjustments in respect of APA	(335)	-	(335)	-
Adjustments in respect of previous periods	(2)	(2)	(2)	(2)
Effect of changes in tax rate or the imposition of new taxes	(139)	(130)	(139)	(130)
Deferred income tax expense	**(393)**	**(92)**	**(393)**	**(92)**
Income tax expense	**(373)**	**(85)**	**(373)**	**(85)**

The UK corporation rate reduced from 26% to 24% with effect from 1 April 2012. Furthermore, the UK corporation tax rate will reduce from 24% to 23% with effect from 1 April 2013.

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

Reconciliation of taxes computed at the UK statutory rate

	Group		Bank	
	2012	**2011**	**2012**	**2011**
Reconciliation of taxes computed at the UK statutory rate (USD million)				
Loss before tax	(359)	(193)	(319)	(187)
Income tax expense computed at the statutory rate of 24.5% (2011: 26.5%)	88	51	79	49
Increase/(decrease) in income taxes resulting from:				
Other permanent differences	(5)	(11)	4	(9)
Effect of different tax rates of operations/subsidiaries operating in other jurisdictions	(3)	(1)	(3)	(1)
Adjustments to current tax in respect of previous periods	13	11	13	11
Impact of finalisation of APA	(325)	-	(325)	
Adjustments to deferred tax in respect of previous periods	(2)	(2)	(2)	(2)
Effect on deferred tax resulting from changes to tax rates	(139)	(133)	(139)	(133)
Income tax expense	**(373)**	**(85)**	**(373)**	**(85)**

13. Deferred Taxes

Deferred taxes are calculated on all temporary differences under the liability method using an effective tax rate of 23% (2011: 25%).

On 21 March 2012, the UK Government announced that the corporation tax rate applicable from 1 April 2012 would be 24%. This change was substantively enacted on 26 March 2012.

In addition, the Finance Act 2012, which passed into law on 17 July 2012, included a further reduction in the UK corporation tax rate from 24% to 23% with effect from 1 April 2013. The change in the UK corporation tax rate from 25% to 23% has resulted in a reduction of the CSi group's net deferred tax asset as at 31 December 2012 of USD 139 million.

It is further proposed that the UK corporation tax rate applicable from 1 April 2014 will be 21%. This reduction is expected to be substantively enacted in July 2013. The effect of this reduction upon the CSi group's deferred tax balance cannot be reliably quantified at this stage.

In the UK budget announcement of 20 March 2013, the UK government announced its intention to further reduce the UK corporation tax rate to 20% with effect from 1 April 2015. This tax rate reduction is expected to be substantively enacted in 2014. The effect of this tax rate reduction upon CSi group's deferred tax balance cannot be reliably quantified at this stage.

In the first half of 2012, the UK and US tax authorities advised CS that they reached agreement on the CS Advanced Pricing Agreement ('APA') application for the period 2004-2011. The APA sets out the transfer pricing methodology which determines the allocation of profits and losses to be taxed in each jurisdiction. As a result of this agreement, CSi has reduced losses carried forward as at 31 December 2012 of USD 834 million and has recognised an income tax expense of USD 325 million and an overall reduction in CSi's net deferred tax asset of USD 335 million.

	Group		Bank	
	2012	**2011**	**2012**	**2011**
Deferred tax (USD million)				
Deferred tax assets	1,450	1,843	1,450	1,843
Net position	**1,450**	**1,843**	**1,450**	**1,843**
Balance at 1 January	1,843	1,935	1,843	1,935
Transfers	-	1	-	1
(Expense)/credit to income for the year	(254)	40	(254)	40
Effect of change in tax rate expensed to income statement	(139)	(133)	(139)	(133)
At end of the year	**1,450**	**1,843**	**1,450**	**1,843**

Deferred tax assets

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

	Group		Bank	
	2012	**2011**	**2012**	**2011**
Components of net deferred tax assets (USD million)				
Derivative financial instruments	12	18	12	18
Share-based compensation	24	25	24	25
Decelerated tax depreciation	139	145	139	145
Other provisions	80	92	80	92
Unpaid interest	345	315	345	315
Deferred tax impact on losses carried forward	850	1,248	850	1,248
At end of the year	**1,450**	**1,843**	**1,450**	**1,843**

Details of the tax effect of temporary differences

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

	Group		Bank	
	2012	**2011**	**2012**	**2011**
Tax effect of temporary differences (USD million)				
Derivative financial instruments	(6)	(6)	(6)	(6)
Share-based compensation	(1)	(79)	(1)	(79)
Decelerated tax depreciation	(6)	9	(6)	9
Other provisions	(13)	78	(13)	78
Unpaid interest	30	70	30	70
Deferred tax impact on losses carried forward	(397)	(164)	(397)	(164)
Total deferred tax (expense)/benefit in the statement of income	**(393)**	**(92)**	**(393)**	**(92)**

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. Only if management considers it probable that a DTA will be realised is a corresponding deferred tax asset established without impairment.

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

As a consequence of this evaluation, it was considered that the DTA could be recognised in full. The Bank's assessment is that trading losses carried forward should be utilised within a period of up to 5 years. This assessment includes the adjustment for APA losses of USD 834 million which occurred in 2012 (referred to above). If strategies and business plans will significantly deviate in the future from current management assumptions, the current level of deferred tax assets may need to be adjusted, if full recovery of the DTA balance is no longer probable.

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

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

Group and Bank	**2012**	**2011**
Securities borrowed or purchased under agreement to resell (USD million)		
Securities purchased under resale agreements	19,966	24,637
Deposits paid for securities borrowed	4,137	4,769
Total securities borrowed or purchased under agreement to resell	**24,103**	**29,406**

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

Group and Bank	2012	2011
Securities lent or sold under agreement to repurchase (USD million)		
Securities sold under repurchase agreements	2,220	753
Deposits received for securities lent	2,654	6,218
Total securities lent or sold under agreement to repurchase	**4,874**	**6,971**

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

Repurchase and reverse repurchase agreements represent collateralised financing transactions used to earn net interest income, increase liquidity or facilitate trading activity. These instruments are collateralised principally by government securities and money market instruments and generally have terms ranging from overnight to a longer or unspecified period of maturity. The CSi group monitors the fair value of securities received or delivered. For securities purchased under repurchase agreements, the CSi group requests additional securities, or the return of a portion of the cash disbursed when appropriate, in response to a decline in the market value of the securities received. Similarly, the return of excess securities or additional cash is requested, when appropriate, in response to an increase in the market value of securities sold under repurchase agreements.

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

Retained assets relate to securities lending agreements and repurchase agreements. The resulting credit exposures are controlled by daily monitoring and collateralisation of the positions.

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

	Group		Bank	
Trading financial assets at fair value through profit or loss (USD million)	**2012**	**2011**	**2012**	**2011**
Debt securities	34,896	28,751	34,796	28,744
Equity securities	14,557	14,647	13,716	13,592
Derivative instrument	506,232	529,346	506,587	530,064
Other	1,648	1,990	2,203	2,553
Trading financial assets at fair value through profit or loss	**557,333**	**574,734**	**557,302**	**574,953**

	Group		Bank	
Trading financial liabilities at fair value through profit or loss (USD million)	**2012**	**2011**	**2012**	**2011**
Short positions	11,472	10,490	11,472	10,489
Derivative instruments	514,265	540,734	514,411	541,427
Trading financial liabilities at fair value through profit or loss	**525,737**	**551,224**	**525,883**	**551,916**

Debt instruments primarily consist of corporate bonds and government securities.
Trading financial assets include USD 32.6 billion (2011: USD 34.0 billion) which are encumbered. The transactions in relation to the encumbered assets are conducted under terms that are usual and customary for securities lent, repurchase agreements or other collateralised borrowings.

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

	Group		Bank	
Financial assets designated at fair value through profit or loss (USD million)	**2012**	**2011**	**2012**	**2011**
Debt securities	80	98	80	98
Loans	10,447	11,550	10,447	11,550
Securities purchased under resale agreements and securities borrowing transactions	5,283	6,290	5,283	6,290
Other	4,318	763	4,318	763
Total financial assets designated at fair value through profit or loss	**20,128**	**18,701**	**20,128**	**18,701**

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

For loans designated at fair value through profit or loss, the maximum fair value exposure to credit risk as at 31 December 2012 was USD 10.5 billion (2011: USD 11.5 billion). To mitigate this credit risk, securities are held as collateral, and credit default swaps with a notional value of USD 1.5 billion (2011: USD 3.7 billion) have been transacted to transfer this risk into the capital markets.

The fair value movement attributable to counterparty credit on loans designated at fair value through profit or loss is calculated using credit spreads applicable to specific points in time. All other risk variables are held constant and the credit spreads are moved based on current market conditions. During the year ended 31 December 2012, this fair value movement was an increase of USD 655 million (2011: decrease USD 185 million). The cumulative effect thereon at the year-end was a decrease of USD 1.1 billion (2011: decrease USD 1.8 billion). The corresponding increase in fair value of the swaps and securities in place to mitigate this risk was USD 84 million (2011: increase USD 215 million). The cumulative effect thereon at the year-end was an increase of USD 2.2 billion (2011: increase USD 2.1 billion).

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

The debt instruments measured at fair value through profit or loss are government securities.

	Group		Bank	
Financial liabilities designated at fair value through profit or loss (USD million)	**2012**	**2011**	**2012**	**2011**
Subordinated debt	296	433	296	433
Structured notes (included in Long term debt and Short term borrowing)	18,158	17,986	18,133	17,961
Deposits	4,611	2,300	4,785	2,300
Securities sold under repurchase agreements and securities lending transactions	10,773	8,573	10,773	8,573
Other	2,806	2,060	1,810	1,031
Total financial liabilities designated at fair value through profit or loss	**36,644**	**31,352**	**35,797**	**30,298**

Of the other financial liabilities designated at fair value through profit or loss, subordinated debt, bonds and repurchase agreements were primarily elected to alleviate an accounting mismatch, while structured notes and deposits were mainly elected because they are managed on a fair value basis.

The fair value of a financial liability incorporates the credit risk of that financial liability. If the instrument is quoted in an active market, the movement in fair value due to credit risk is calculated as the amount of change in fair value that is not attributable to changes in market conditions that give rise to market risk. If the instrument is not quoted in an active market, the fair value is calculated using a valuation technique that incorporates credit risk by discounting the contractual cash flows on the debt using a credit-adjusted yield curve which reflects the level at which the CSi group would issue similar instruments as of the reporting date.

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

The carrying amount is USD 0.5 billion higher than the principal amount that the CSi group would be contractually required to pay to the holder of these financial liabilities at maturity (2011: USD 2.7 billion lower).

17. Other Loans and Receivables

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

	Group		Bank	
	2012	**2011**	**2012**	**2011**
Loans (USD million)				
Real estate	16	35	16	42
Commercial and industrial loans	1,069	1,582	1,073	1,582
Financial institutions	12,461	12,800	12,461	12,800
Government and public institutions	-	4	-	4
Gross loans	**13,546**	**14,421**	**13,550**	**14,428**
■ of which domestic	12,053	12,138	12,053	12,138
■ of which foreign	1,493	2,283	1,497	2,290
Net unearned income	(19)	(19)	(19)	(19)
Allowance for loan losses	(18)	(59)	(18)	(61)
Net loans	**13,509**	**14,343**	**13,513**	**14,348**
Gross impaired loans	**37**	**72**	**37**	**72**
■ of which loans with an individual allowance	2	68	2	68
■ of which loans without an individual allowance	35	4	35	4

Other loans and receivables due within one year for the CSi group and Bank, amounts to USD 557 million (2011: USD 937 million).

Reconciliation of the allowance for loan losses by class

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

Group	**Banks**	**Customers**	**Total**
Allowance for loan losses (USD million)			
Balance at 1 January 2012	(7)	(52)	(59)
■ Additional allowances for impairment losses	(2)	(14)	(16)
■ Reversal of allowances for impairment losses	3	52	55
Movement recognised in Consolidated Statement of Income	1	38	39
■ Net write backs	-	2	2
Balance at 31 December 2012	**(6)**	**(12)**	**(18)**
Balance at 1 January 2011	(6)	(63)	(69)
■ Additional allowances for impairment losses	(3)	(44)	(47)
■ Reversal of allowances for impairment losses	2	22	24
Movement recognised in Consolidated Statement of Income	(1)	(22)	(23)
■ Net write backs	-	33	33
Balance at 31 December 2011	**(7)**	**(52)**	**(59)**

Bank	Banks	Customers	Total
Allowance for loan losses (USD million)			
Balance at 1 January 2012	(7)	(54)	(61)
■ Additional allowances for impairment losses	(2)	(14)	(16)
■ Reversal of allowances for impairment losses	3	52	55
Movement recognised in Consolidated Statement of Income	1	38	39
■ Net write backs	-	4	4
Balance at 31 December 2012	**(6)**	**(12)**	**(18)**
Balance at 1 January 2011	(6)	(63)	(69)
■ Additional allowances for impairment losses	(3)	(44)	(47)
■ Reversal of allowances for impairment losses	2	22	24
Movement recognised in Consolidated Statement of Income	(1)	(22)	(23)
■ Net write backs	-	31	31
Balance at 31 December 2011	**(7)**	**(54)**	**(61)**

18. Investment Property

The CSi Group consolidates a number of SPEs which hold property. Investment properties are currently held at cost less depreciation and provision for impairment. Due to a fall in indicative open market value, an impairment charge of USD 14 million was taken to the Consolidated Statement of Income for the year. The fair value and carrying value amount were the same as at 31 December 2012.

Group	2012	2011
Investment property (USD million)		
Balance at the beginning of the year	561	
Reclassification from real estate held-for-sale	-	561
Depreciation charge for the year	(7)	-
Impairment charge for the year	(14)	-
Foreign Currency Translation	(22)	-
Balance at the end of year	**518**	**561**

19. Other Assets and Other Liabilities

	Group		Bank	
	2012	**2011**	**2012**	**2011**
Other assets (USD million)				
Brokerage receivables (refer to Note 20)	2,057	2,407	2,053	2,407
Interest and fees receivable	203	477	514	769
Cash collateral on derivative instruments				
■ Banks	24,580	24,826	24,580	24,826
■ Customers	26,783	27,814	26,783	27,814
Other	337	220	338	250
Other assets	**53,960**	**55,744**	**54,268**	**56,066**

Other assets are mainly due within one year.

	Group		Bank	
	2012	2011	2012	2011
Other liabilities (USD million)				
Brokerage payables (refer to Note 20)	2,570	780	2,567	780
Interest and fees payable	974	1,311	1,299	1,623
Cash collateral on derivative instruments				
■ Banks	28,658	29,083	28,658	29,083
■ Customers	11,718	10,601	11,718	10,601
Failed sales	259	272	259	272
Share-based compensation liability	103	92	109	92
Other	684	696	670	686
Other liabilities	**44,966**	**42,835**	**45,280**	**43,137**

20. Brokerage Receivables and Brokerage Payables

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

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

	Group		Bank	
	2012	2011	2012	2011
Brokerage receivable (USD million)				
Due from customers	650	304	646	304
Due from banks, brokers and dealers	1,407	2,103	1,407	2,103
Total brokerage receivables	**2,057**	**2,407**	**2,053**	**2,407**
Brokerage payable (USD million)				
Due to customers	278	182	275	182
Due to banks, brokers and dealers	2,292	598	2,292	598
Total brokerage payables	**2,570**	**780**	**2,567**	**780**

Included within payables are liabilities identified as client money. The CSi group and Bank held USD 391 million as at 31 December 2012 (2011: USD 110 million). This cash is recorded under 'Cash and due from banks' and the corresponding liability is included in 'Other liabilities'.

21. Significant Subsidiaries

Significant subsidiaries:

Bank	2012	2011
Investments in subsidiary undertakings (USD million)	10	10

The subsidiary undertakings, direct and indirect, of the Bank at 31 December 2012, all of which are consolidated in these financial statements, are as follows:

Bank	Country of Incorporation	% Equity Held
Direct holdings:		
Credit Suisse First Boston International (USA), Inc.	United States	100%
CSFB International Trading, L.L.C.	United States	100%

During 2012 Credit Suisse First Boston International Warrants Limited and Credit Suisse First Boston International (Holding) B.V. were liquidated and dissolved.

The business of all of the subsidiaries is complementary to the business of the Bank.

22. Intangible Assets

Group and Bank 2012	Customer list[1]	Internally developed software	Total
Intangible assets (USD million)			
Cost:			
Cost as at 1 January 2012	5	872	877
Additions	-	209	209
Disposals	-	(6)	(6)
Cost as at 31 December 2012	**5**	**1,075**	**1,080**
Accumulated amortisation:			
Accumulated amortisation as at 1 January 2012	-	(470)	(470)
Amortisation for the year	-	(149)	(149)
Impairment	-	-	-
Disposals	-	4	4
Accumulated amortisation as at 31 December 2012	**-**	**(615)**	**(615)**
Net book value as at 1 January 2012	5	402	407
Net book value as at 31 December 2012	**5**	**460**	**465**

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

Group and Bank 2011	Customer list	Internally developed software	Total
Internally developed software (USD million)			
Cost:			
Cost as at 1 January 2011	-	709	709
Additions due to acquisition (refer Note 40)	5	-	5
Additions	-	198	198
Disposals	-	(35)	(35)
Cost as at 31 December 2011	**5**	**872**	**877**
Accumulated amortisation:			
Accumulated amortisation as at 1 January 2011	-	(384)	(384)
Amortisation for the year	-	(117)	(117)
Impairment	-	(3)	(3)
Disposals	-	34	34
Accumulated amortisation as at 31 December 2011	**-**	**(470)**	**(470)**
Net book value as at 1 January 2011	-	325	325
Net book value as at 31 December 2011	**5**	**402**	**407**

23. Property and Equipment

Group 2012	Leasehold Improvements	Computer Equipment	Office Equipment	Total
Property and equipment (USD million)				
Cost:				
Cost as at 1 January 2012	**528**	**228**	**142**	**898**
Additions	12	24	2	38
Disposals	(14)	(9)	(12)	(35)
Cost as at 31 December 2012	**526**	**243**	**132**	**901**
Accumulated depreciation:				
Accumulated depreciation as at 1 January 2012	(341)	(161)	(99)	(601)
Charge for the year	(23)	(36)	(10)	(69)
Disposals	13	9	12	34
Accumulated depreciation as at 31 December 2012	**(351)**	**(188)**	**(97)**	**(636)**
Net book value as at 1 January 2012	**187**	**67**	**43**	**297**
Net book value as at 31 December 2012	**175**	**55**	**35**	**265**

Bank 2012	Leasehold Improvements	Computer Equipment	Office Equipment	Total
Property and equipment (USD million)				
Cost:				
Cost as at 1 January 2012	**528**	**228**	**126**	**882**
Additions	12	24	3	39
Disposals	(14)	(9)	(12)	(35)
Cost as at 31 December 2012	**526**	**243**	**117**	**886**
Accumulated depreciation:				
Accumulated depreciation as at 1 January 2012	(341)	(161)	(99)	(601)
Charge for the year	(23)	(36)	(10)	(69)
Disposals	13	9	12	34
Accumulated depreciation as at 31 December 2012	**(351)**	**(188)**	**(97)**	**(636)**
Net book value as at 1 January 2012	**187**	**67**	**27**	**281**
Net book value as at 31 December 2012	**175**	**55**	**20**	**250**

Group 2011	Leasehold Improvements	Computer Equipment	Office Equipment	Total
Property and equipment (USD million)				
Cost:				
Cost as at 1 January 2011	507	782	167	1,456
Additions due to acquisition (refer Note 40)	9	-	1	10
Additions	13	41	29	83
Disposals	(1)	(595)	(55)	(651)
Cost as at 31 December 2011	**528**	**228**	**142**	**898**
Accumulated depreciation:				
Accumulated depreciation as at 1 January 2011	(319)	(711)	(144)	(1,174)
Charge for the year	(23)	(43)	(10)	(76)
Disposals	1	593	55	649
Accumulated depreciation as at 31 December 2011	**(341)**	**(161)**	**(99)**	**(601)**
Net book value as at 1 January 2011	**188**	**71**	**23**	**282**
Net book value as at 31 December 2011	**187**	**67**	**43**	**297**

Bank 2011	Leasehold Improvements	Computer Equipment	Office Equipment	Total
Property and equipment (USD million)				
Cost:				
Cost as at 1 January 2011	507	782	167	1,456
Additions	22	41	14	77
Disposals	(1)	(595)	(55)	(651)
Cost as at 31 December 2011	**528**	**228**	**126**	**882**
Accumulated depreciation:				
Accumulated depreciation as at 1 January 2011	(319)	(711)	(144)	(1,174)
Charge for the year	(23)	(43)	(10)	(76)
Disposals	1	593	55	649
Accumulated depreciation as at 31 December 2011	**(341)**	**(161)**	**(99)**	**(601)**
Net book value as at 1 January 2011	**188**	**71**	**23**	**282**
Net book value as at 31 December 2011	**187**	**67**	**27**	**281**

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

No interest has been capitalised within property and equipment (2011: USD Nil).

24. Deposits

Group and Bank Deposits (USD million)	2012	2011
Non-interest bearing demand deposits	111	1,702
Interest-bearing demand deposits	2,082	2,021
Time deposits	2,651	728
Total deposits	**4,844**	**4,451**
Of which due to banks	2,811	2,465
Of which due to customers	2,033	1,986

25. Short Term Borrowings

	Group		Bank	
	2012	**2011**	**2012**	**2011**
Short-term borrowings (USD million)				
Short term borrowings:				
from banks	20,690	23,713	20,690	23,713
from customers	9,028	9,029	9,052	9,053
Total short term borrowings	**29,718**	**32,742**	**29,742**	**32,766**

26. Provisions

Group and Bank Provisions (USD million)	Property	Litigation	Total
Balance at 1 January 2012	4	22	26
Charges during the year	-	1	1
Utilised during the year	-	(3)	(3)
Balance at 31 December 2012	**4**	**20**	**24**

Property provision

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

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

Litigation provision

The CSi group accrues litigation provisions (including fees and expenses of external lawyers and other service providers) in connection with certain judicial, regulatory and arbitration proceedings when reasonably possible losses, additional losses or ranges of loss are probable and reasonably estimable. General Counsel in consultation with the business reviews CS group's judicial, regulatory and arbitration proceedings each quarter to determine the adequacy of its litigation provisions and may increase or release provisions based on management's judgement and the advice of counsel. The anticipated utilisation of these litigation provisions typically ranges from six to eighteen month period, however certain litigation provisions are anticipated to extend beyond this period. Further provisions or releases of litigation provisions may be necessary in the future as developments in such litigation, claims or proceedings warrant.

The litigation provision relates to legal cases that the Bank is defending. The exact timing of outflow of economic benefits cannot be ascertained at 31 December 2012.

27. Long Term Debt

	Group		Bank	
	2012	**2011**	**2012**	**2011**
Long term debt (USD million)				
Senior debt	22,283	20,471	22,278	20,443
Subordinated debt	8,371	11,202	8,371	11,202
Total long term debt	**30,654**	**31,673**	**30,649**	**31,645**

The reduction in subordinated debt includes all the callable subordinated loans (provided by Credit Suisse PSL GmbH and Credit Suisse First Boston Finance B.V.) amounting to USD 2,964 million which have been redeemed and replaced by new participating shares, i.e. ordinary shares with no voting rights, as part of the capital restructuring in February 2012 (refer to Note – 28 Share Capital and Share Premium for further details).

28. Share Capital and Share Premium

Group and Bank	2012	2011
Authorised (USD)		
Ordinary voting shares of USD 0.1 each (31 December 2011: USD 1 each)	13	125
Participating non-voting shares of USD 0.1 each (31 December 2011: USD 1 each)	Unlimited	7,224,999,375
Class A Participating non-voting shares of USD 1 each	-	500
Preference Shares of USD25,000,000 each	-	275,000,000
Class A Preference Shares of USD 1 each	-	250,000,000
Class B Preference Shares of USD 1 each	-	600,000,000
Class C Preference Shares of USD 1 each	-	800,000,000
Class D Preference Shares of USD 1 each	-	600,000,000
Class E Preference Shares of USD 1 each	-	700,000,000
Class F Preference Shares of USD 1 each	-	750,000,000
Class G Preference Shares of USD 1 each	-	800,000,000
Class H Preference Shares of USD 1 each	-	700,000,000
Class I Preference Shares of USD 1 each	-	1,500,000,000
Class J Preference Shares of USD 1 each	-	1,400,000,000
Class K Preference Shares of USD 1 each	-	200,000,000
Total authorised capital	**13**	**15,800,000,000**

Share Capital

Group and Bank	2012	2011
Allotted, called-up and fully paid (USD)		
Ordinary voting shares of USD 0.1 each (31 December 2011: USD 1 each)	13	125
Participating non-voting shares of USD 0.1 each (31 December 2011: USD 1 each)	3,107,655,992	4,389,568,088
Class A Participating non-voting shares of USD 1 each	-	200
Class A Preference Shares of USD1 each	-	250,000,000
Class B Preference Shares of USD1 each	-	-
Class C Preference Shares of USD1 each	-	350,000,000
Class D Preference Shares of USD1 each	-	300,000,000
Class E Preference Shares of USD1 each	-	535,000,000
Class H Preference Shares of USD1 each	-	700,000,000
Class I Preference Shares of USD1 each	-	1,500,000,000
Class J Preference Shares of USD1 each	-	1,400,000,000
Class K Preference Shares of USD1 each	-	200,000,000
Total allotted, called-up and fully paid capital	**3,107,656,005**	**9,624,568,413**

Share Premium

Group and Bank	2012	2011
Share premium (USD)		
Opening balance	1,016,106,287	1,016,106,287
Reduction in face value of Ordinary shares	112	-
Transfer of Participating shares relating to capital restructuring	3,950,611,279	-
Transfer of Preference shares relating to capital restructuring	5,235,000,000	-
Issuance of Participating shares relating to capital restructuring	(581,666,666)	-
Conversion of subordinated debt to Participating shares relating to capital restructuring	2,634,488,889	-
Issuance of Participating shares	444,444,444	-
Closing balance	**12,698,984,345**	**1,016,106,287**

As part of a restructuring of CSi's capital structure, the following transactions occurred during the year ended 31 December 2012:

On 3 February 2012, CSi passed a special resolution to undergo a capital restructuring in accordance with the Companies Act 2006. The purpose of the capital restructuring was to be compliant with regulatory capital requirements. The salient features of the restructure which took effect from 6 February 2012 were as follows:

- 125 Ordinary Voting shares of USD 1 were reduced to USD 0.1 per share, with USD 13 remaining in Share Capital and USD 112 transferred to Share Premium.
- 43,895,680,088 Participating non-voting shares of USD 1 were reduced to USD 0.1 per share, with USD 438,956,809 remaining in Share Capital and USD 3,950,611,279 transferred to Share Premium.
- 200 Class A Participating non-voting shares of USD 1 per share were cancelled.
- All preference shares in issue (class A, C, D, E, H, I, J and K) totalling USD 5,235,000,000 were replaced by new Participating shares. Share Capital increased by USD 581,666,666 as a result and Share Premium by USD 4,653,333,334.
- Subordinated Debt totalling USD 2,963,800,000 was repaid and replaced by Participating shares, with USD 329,311,111 credited to Share Capital and USD 2,634,488,889 credited to Share Premium.
- On 29 February 2012, CSi issued 555,555,555 Participating shares of USD 0.1 each allotted and issued in cash, with USD 55,555,556 credited to Share Capital and USD 444,444,444 credited to Share Premium.
- On 16 August 2012, Subordinated Debt totalling USD 202,165,852 was repaid and replaced by 2,021,658,519 Participating shares issued at par value USD 0.1 per share to improve the quality of capital in line with requirements of Basel III.
- On 6 November 2012 CSI issued 15,000,000,000 Participating Shares at par value of USD 0.1 per share in lieu of total cash consideration of USD 1,500,000,000.

The Ordinary Shares carry voting rights but do not carry the right to receive dividends.

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

29. Retirement Benefit Obligations

The following disclosures contain the balances for the entire defined benefit plan sponsored by Credit Suisse Securities (Europe) Limited ('CSSEL'), of which the Bank is one of many participants, who are all related parties under common control. The Bank accounts for its share of the plan using defined contribution accounting. During 2012 the Bank expensed USD 8.3 million (2011: USD 1.4 million) in respect of its contributions to the UK defined benefit scheme.

The following table shows the changes in the defined benefit obligation and the fair value of plan assets during 2012 and 2011, and the amounts included in CSSEL's consolidated financial statements for the defined benefit pension plan as at 31 December 2012 and 2011 respectively:

Group and Bank	**2012**	**2011**
Defined benefit pension plans (USD million)		
Defined benefit obligation – 1 January	1,399	1,297
Current service cost	6	6
Interest cost	70	75
Curtailments [1]	(7)	-
Actuarial losses – assumptions	7	44
Actuarial (gains)/ losses – experience	(2)	6
Benefit payments	(33)	(19)
Exchange rate losses/(gains)	66	(10)
Defined benefit obligation – 31 December	**1,506**	**1,399**
Fair value of plan assets – 1 January	1,858	1,404
Expected return on plan assets	130	109
Actuarial gains	19	380
Actual return on plan assets	**149**	**489**
Employer Contributions	93	10
Benefit payments	(33)	(19)
Exchange rate losses/(losses)	93	(26)
Fair value of plan assets – 31 December	**2,160**	**1,858**

[1] Curtailment impacts related to the headcount reduction in 2012 in the context of the cost efficiency program as announced by management.

The Bank has agreed the valuation and funding of the UK defined benefit pension plan with the Pension Fund Trustees as at 31 December 2011.

As per the 31 December 2011 valuation discussion with the Trustees, no additional special funding contributions are due to be paid to the pension fund. Contributions will be paid to cover administrative expenses, administration rebates and death in service pensions. Expected regular contributions to be paid to the UK defined benefit plan for all participating entities for the year ending 31 December 2013 is approximately USD 9 million.

Assumptions

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

Group and Bank	2012	2011
Benefit obligations (%)		
Discount rate	4.80	4.90
Retail Price Inflation	3.10	3.20
Consumer Price Inflation	2.40	2.20
Pension increases [1]	3.00	3.08
Salary increases	4.35	4.45
Net periodic pension cost (%)		
Discount rate	4.90	5.60
Salary increases	4.45	4.70
Expected long term rate of return on plan assets	6.50	7.50

[1] Pension earned pre 6 April 1997 are subject to pension increases on a discretionary basis, which were considered to be Nil as of 31 December 2011.

Mortality Assumptions

The assumptions for life expectancy for the 2012 benefit obligation pursuant to IAS 19 are based on the "SAPS light" base table with improvements in mortality in line with the core CMI 2011 projections and a scaling factor of 100%. Underpins to future mortality improvement have been considered with a long term year on year improvement of 1.25%.

The assumptions for life expectancy for the 2011 benefit obligation were based on the "00 Series" base table with improvements in mortality from 2000 in line with 80%/60% of the Long Cohort improvements for males/females, and a scaling factor of 90%. Underpins to future mortality improvement were also incorporated, the minimum year on year improvements being 1.25% p.a. The change in 2012 follows a mortality investigation carried out as part of the 31 December 2011 triennial funding valuation.

The post-retirement mortality assumptions are as follows:

	2012	2011
Life expectancy at age 60 for current pensioners aged 60 (years)		
■ Males	29	29
■ Females	30	31
Life expectancy at age 60 for future pensioners currently aged 40 (years)		
■ Males	31	32
■ Females	32	34

Sensitivity Analysis

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

	Increase USDM	Increase %	Decrease USDM	Decrease %
Benefit obligation				
One-percentage point change				
- 1%/ +1% Discount rate	403	27	(308)	(20)
+1% / -1% Inflation rate	275	18	(230)	(15)
+1% / -1% Salary increases rate	10	1	(10)	(1)
+1 / -1 year to life expectancy at 60	26	2	(28)	(2)
Total periodic pension cost				
One-percentage point change				
- 1% / +1% Expected return on assets	20	N/A	(20)	N/A

Plan assets and investment strategy

The Bank's defined benefit pension plan looks to minimise risk subject to adopting an investment strategy that has a reasonable expectation of achieving a certain level of return by investing in a range of asset classes of appropriate liquidity and security which will generate income and capital growth to meet, together with agreed contributions from the Bank, the cost of benefits. Risk tolerance is established through careful consideration of plan liabilities, plan funded status and corporate financial condition. Furthermore, equity investments are diversified across UK and non-UK stocks as well as between growth, value and small and large capitalisation stocks. Other assets such as hedge funds are used to enhance long term returns while improving portfolio diversification. The Fund has a medium term target of hedging a large proportion of interest rate and inflation risk arising from liabilities. Investment risk is measured and monitored on an ongoing basis through annual liability measurements, periodic asset/liability studies and quarterly investment portfolio reviews. To limit investment risk, the Bank's pension plans follow defined strategic asset allocation guidelines. Depending on the market conditions, these guidelines are even more limited on a short-term basis.

The Bank employs a building block approach in determining the long-term rate of return on pension plan assets. Historical markets are studied and assets with higher volatility are assumed to generate higher returns consistent with widely accepted capital market principles. The expected rate of return on plan assets used for the computation of the 2012 expenses was derived by aggregating the expected return for each asset class over the target asset allocation for the Fund as at 31 December 2011.

	Fair value 2012	% of total fair value of scheme assets 2012	Fair value 2011	% of total fair value of scheme assets 2011
Fair value of plan assets (USD million)				
Equity securities[1]	465	21.5	657	35.4
Debt securities	1,027	47.5	770	41.4
Alternative Investments (primarily Swaps)	263	12.2	378	20.3
Cash	405	18.8	53	2.9
Fair value of plan assets	**2,160**	**100**	**1,858**	**100.0**

1 Including investment in unit trust product as of December 31, 2012 and 2011 for USD 210m and 312m, respectively, (mutual funds type of investment) which are reported under the category Equity securities as per the Bank policy but are not considered as Equity type of investment in the context of the investment strategy.

Defined Contribution Pension Plans

The Bank also contributes to various defined contribution pensions primarily in the United Kingdom. The contributions in these plans during 2012 and 2011 were USD 14 million and USD 16 million respectively.

30. Employee Share-based Compensation and Other Compensation Benefits

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

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

Total compensation expense for cash-settled share-based compensation plans recognised during 2012 and 2011 was USD 66 million and USD 56 million respectively. The total stock award liability recorded as at 31 December 2012 was USD103 million (2011: USD 92 million). The fair value used to calculate the stock award liability was the closing Credit Suisse Group share price as at 31 December 2012 CHF 22.26 (2011: CHF 22.07). The average weighted fair value of awards granted in 2012 was CHF 22.26 (2011: CHF 40.75). The intrinsic value of vested share based awards outstanding as at year end was USD19 million (2011: USD12 million).

Performance Share Awards

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

The fair value of each Jan 2013 Performance Share award was CHF 26.44, equivalent to the CSG's closing share price on the grant date.

Movements in the number of units outstanding were as follows:

Group and Bank	2012	2011
Number of units (millions)		
As at 1 January	-	-
Granted	1.09	-
Share transferred in/out	0.03	-
Delivered	-	-
Forfeited	(0.12)	-
As at 31 December	**1.00**	**-**

Phantom Share Awards

Share awards granted in January 2013 are similar to those granted in January 2012 and are awarded to certain employees in the Bank. The share awards, which have a three-year vesting period, align the interests of the Bank's employees with those of the shareholders and the performance of the Bank and comply with the expectations of regulators to grant a substantial portion of variable compensation in the form of share awards. Each share award granted entitles the holder of the award to receive one CSG share and does not contain a leverage component or a multiplier effect. The number of share awards was determined by dividing the deferred component of variable compensation being granted as shares by the average price of a CSG share over the twelve business days ended January 16, 2013. One third of the share awards vests on each of the three anniversaries of the grant date. The value of these share awards is solely dependent on the CSG share price at the time of delivery. Share awards granted in January 2011 have a four-year vesting period and vest one quarter on each of the four anniversaries of the grant date. Share awards include a two-year moratorium on early retirement, determined from the grant date.

The fair value of each January 2013 share award was CHF 26.44, equivalent to the CSG's closing share price on the grant date.

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

In order to comply with regulatory requirements, the CSG awarded an alternative form of share awards as a component of unrestricted cash to certain senior employees. For 2012, 2011 and 2010, these employees received a portion of the amount they otherwise would have received in cash in the form of blocked shares. The shares remain blocked for a period of time, which ranges from six months to three years, depending on the location, after which they are no longer subject to restrictions. Blocked shares granted on January 17, 2013 vest immediately upon grant, have no future service requirements and were attributed to services performed in 2012.

Movements in the number of units outstanding were as follows:

Group and Bank	2012	2011
Number of units (millions)		
As at 1 January	2.58	1.13
Granted	1.75	2.44
Share transferred out	0.07	(0.12)
Delivered	(1.10)	(0.70)
Forfeited	(0.25)	(0.17)
As at 31 December	**3.05**	**2.58**

Plus Bond awards

Certain employees received a portion of their deferred variable compensation in the form of Plus Bond awards. The Plus Bond award is essentially a fixed income instrument, denominated in US dollars, which provides a coupon payment that is commensurate with market-based pricing. Plus Bond award holders are entitled to receive semi-annual cash payments on their adjusted award amounts at the rate of London Interbank Offered Rate plus 7.875% per annum until settlement. The Plus Bond will settle in the summer of 2016 based on the amount of the initial award less portfolio losses, if any, in excess of a first loss portion retained by CSG of approximately USD 600 million. The value of the Plus Bond awards is based on the performance of a portfolio of unrated and sub-investment-grade asset-backed securities that are held in inventory by various trading desks of CSG's Investment Banking division. While the Plus Bond award is a cash-based instrument, CSG reserves the right to settle the award in CSG shares based on the share price at the time of final distribution. In addition, subject to oversight procedures, CSG retains the right to prepay all or a portion of the Plus Bond award in cash at any time and, in the event of certain regulatory developments or changes on capital treatment, exchange the award into a CSG share award. Similar to the PAF2 awards, the Plus Bond award plan contributes to a reduction of CSG's risk-weighted assets and constitutes a risk transfer from CSG to the Plus Bond award holders.

The Plus Bonds were fully vested and expensed as of the grant date of December 31, 2012. Compensation expense will continue to be updated at each reporting period date to reflect any change in the underlying fair value of the Plus Bond awards until the awards are finally settled. Total compensation expense recognised during the year ended December 31, 2012 was USD15 million. There is no unrecognised compensation expense as of December 31, 2012.

Certain employees were given the opportunity in early 2013 to voluntarily reallocate a portion of the share award component of their deferred awards into the Plus Bond award. The Plus Bonds provided to employees through the voluntary reallocate offer will vest on January 17, 2016 and will be expensed over the vesting period. Compensation expense will continue to be updated at each reporting period date to reflect any change in the underlying fair value of the Plus Bond awards until the awards are finally settled. Total compensation expense recognised during the year ended December 31, 2012 was USD nil.

2012 Restricted Cash Awards

Certain employees received the cash component of their variable compensation in the form of 2012 Restricted Cash Awards. These awards are fully settled in cash on the grant date subject to a pro-rata repayment by the employee in the event of voluntary resignation or termination for cause within three years of the award grant.

On January 17, 2013, the Bank granted Restricted Cash Awards with a three-year vesting period, subject to early retirement rules. Total compensation expense recognised during the year ended December 31, 2012 was USD NIL.

On January 20, 2011, the Bank granted Restricted Cash Awards with a two-year vesting period. Total compensation expense recognised during the year ended December 31, 2012 was USD 4 million (2011: USD 24 million). There is no unrecognised compensation expense as of December 31, 2012.

2011 Partner Asset Facility ('PAF2')

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

Certain employees received PAF2 awards which vested in the first quarter of 2012. The award holders are subject to non-compete and non-solicit provisions that result in the cancellation of the award upon voluntary termination of employment for three years from the grant date.

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

In January 2012, CSG awarded PAF2 units and the associated compensation expenses were fully expensed in the first quarter of 2012 as the awards were fully vested as of March 31, 2012. Compensation expense will continue to be updated at each reporting period date to reflect any change in the underlying fair value of the PAF2 awards until the awards are finally settled. Total compensation expense recognised during the year ended December 31, 2012 was USD 34 million (2011: USD NIL). There is no unrecognised compensation expense as of December 31, 2012.

Adjustable Performance Plan Awards ('APPA')

The Adjustable Performance Plan is a deferred, cash-based plan for certain employees. CSG introduced and granted Adjustable Performance Plan awards as part of deferred compensation for 2009 and 2010 (2010 Adjustable Performance Plan). The 2009 Adjustable Performance Plan awards are fully vested and were fully expensed as of December 31, 2012 and will be due for delivery in the first half of 2013.

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

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

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

Total compensation expense recognised for Adjustable Performance Plan cash awards during the year ended December 31, 2012 was USD18 million (2011: USD 70 million).

Group and Bank	**2012**	**2011**
APP Stock Awards (millions)		
As at 1 January	-	-
Granted	0.81	-
Share transferred in/out	-	-
Delivered	-	-
Forfeited	-	-
As at 31 December	**0.81**	**-**

Scaled Incentive Share Unit ('SISU')

The Scaled Incentive Share Units ("SISUs") plan is a share-based, long-term incentive plan. SISUs were granted in January 2010 as part of 2009 variable deferred compensation. SISUs are similar to ISUs (refer to Incentive Share Unit) except with four-year vesting, subject to early retirement rules, and the leverage component contains an additional performance condition which could increase or decrease the number of any additional shares. The base component of the SISUs awarded on the grant date will vest equally over the four-year vesting period whereas the leverage component will only vest on the fourth anniversary of the grant date. The new performance condition links the final delivery of additional shares to the CSG average ROE and if the CSG average ROE over the four-year period is higher than a pre-set target established at the grant date, the number of additional shares calculated by reference to the average CSG share price increase will be adjusted positively, and if it is below the target, the number of additional shares will be adjusted negatively, but not below zero. The final number of additional shares to be delivered at the end of the four-year period is therefore determined first on the basis of the CSG share price development (share price multiplier) and then on the basis of the CSG average ROE development (ROE multiplier). CSG shares are delivered shortly after the SISU base component and SISU leverage component vest. SISUs include a two-year moratorium on early retirement, determined from the grant date.

The fair value of the 2010 SISU base unit was CHF 50.30 and the fair value of the 2010 SISU leverage units was CHF 13.44. For the SISUs granted in January 2010, the number of additional shares per SISU was capped at a maximum of three times the grant date value, with a delivery of no more than three shares, prior to the application of the scaling factor, which can be as high as up to 2.5.

Movements in the number of SISUs outstanding were as follows:

	2012		**2011**	
	Base	**Leverage**	**Base**	**Leverage**
SISU Awards (USD million)				
As at 1 January	0.92	1.07	1.35	1.33
Granted	-	-	-	-
Share transferred in/out	-	-	(0.05)	(0.04)
Delivered	(0.32)	-	(0.34)	-
Forfeited	-	(0.16)	(0.04)	(0.22)
As at 31 December	**0.60**	**0.91**	**0.92**	**1.07**

Incentive Share Unit ('ISU')

The Incentive Share Units ("ISUs") were the main form of share-based variable deferred compensation for all employees from 2006 to 2009. An ISU is similar to a share, but offers additional upside depending on the development of the CSG share price, compared to predetermined targets set on the grant date. For each ISU granted, the employee will receive at least one CSG share (ISU base unit) over a three-year period vesting and could receive additional shares (ISU leverage unit) at the end of the three-year vesting period. The number of ISU leverage units to be converted to additional shares is calculated by multiplying the total number of ISU base units granted, less forfeitures, by a share price multiplier. The share price multiplier is determined based on the actual increase in the weighted-average monthly share price during the contractual term of the award versus the share price at grant date. One third of the ISU base units vests at the first anniversary of the grant date, one third at the second anniversary of the grant date and one third at the third anniversary. The ISU leverage units vest only on the third anniversary of the grant date. Shares are delivered shortly after the ISU base units and the ISU leverage units vest. ISUs include a two-year moratorium on early retirement, determined after the grant date. For the ISUs granted in January 2010, the number of additional shares per ISU was capped at a maximum of three times the grant value, with a delivery of no more than five shares.

In 2012, the ISU leverage granted in 2009 were settled with a value for each outstanding leverage unit equivalent to 0.986 CSG shares. In 2011, the ISU leverage units granted in 2008 were settled but did not have a value at settlement as the CSG share price performance was below the minimum predefined target of CHF 58.45.

Movements in the number of ISUs outstanding were as follows:

Group and Bank	**2012**		**2011**	
	Base	**Leverage**	**Base**	**Leverage**
ISU Awards (millions)				
As at 1 January	0.58	1.22	2.00	3.68
Granted	-	-	-	-
Share transferred in/out	-	-	(0.02)	(0.03)
Delivered	(0.44)	(0.81)	(1.33)	(2.12)
Forfeited	(0.03)	(0.10)	(0.07)	(0.31)
As at 31 December	**0.11**	**0.31**	**0.58**	**1.22**

Cash Retention Awards (‘CRA’)

For 2008, certain employees received deferred compensation in the form of Cash Retention Awards (CRA). These CRA payments, which were made in the first quarter of 2009, were subject to vesting rateably over a two-year period and other conditions, and any unvested CRA would have had to be repaid if a claw-back event, such as voluntary termination of employment, occurred. These awards were fully vested in January 2011.

2008 Partner Asset Facility (‘PAF’)

As part of the 2008 annual compensation process, the Bank awarded senior employees of certain divisions the majority of the deferred compensation in the form of 2008 PAF awards, denominated in US dollars. The PAF awards are indexed to, and represent a first-loss interest in, a specified pool of illiquid assets (Asset Pool) that originated in CSG Investment Banking.

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

The PAF awards, which have a contractual term of eight years, are fully vested. All PAF awards remain subject to non-compete/non-solicit provisions that expire in respect of one-third of the awards on each of the three anniversaries of the grant date. Each PAF holder will receive a semi-annual cash interest payment of LIBOR plus 250 basis points applied to the notional value of the PAF award granted throughout the contractual term of the award. Beginning in the fifth year after the date of grant, the PAF holders will receive an annual cash payment equal to 20% of the notional value of the PAF awards if the fair market value of the Asset Pool in that year has not declined below the initial fair market value of the Asset Pool. In the final year of the contractual term, the PAF holders will receive a final settlement in cash equal to the notional value, less all previous cash payments made to the PAF holder, plus any related gains or less any related losses on the liquidation of the Asset Pool.

Compensation expense will be updated at each reporting period date to reflect any change in the underlying fair value of the PAF awards until the awards are finally settled. Total compensation expense / (gain) recognised during the year ended 31 December 2012 was USD 21 million (2011: (USD1 million)). There is no unrecognised compensation expense as of 31 December 2012.

Effective 31 December 2011, existing PAF holders were given a voluntary election to make a value-for-value exchange of their existing PAF awards for a new PAF award linked to an expanded portfolio of reference assets. There was no impact on compensation expense for 2011.

Performance Incentive Plan units (PIPs)

As part of its annual incentive performance bonus process for 2004 and 2005, the Bank granted PIP share units during 2005 and 2006, respectively. PIP units are long-term retention incentive awards requiring continued employment with the Bank subject to restrictive covenants and cancellation provisions, and vest evenly over a five-year period. Each PIP unit settled for a specified number of registered CSG shares subsequent to the fifth anniversary of the grant date based on the achievement of: (i) earnings performance as compared to predefined targets (performance conditions); and (ii) CSG share price performance compared to predefined targets and CSG share price performance relative to peers (market conditions). The performance conditions determine the multiplier used to convert the initial PIP units into the final number of PIP units. The market conditions determine the number of CSG shares that each final PIP unit will convert into at settlement.

The PIP II units granted in 2006 were settled in 2011 and did not have a value at settlement. This was due to the CSG share price performance being below the minimum predefined target of CHF 47.

Movements in the number of PIP units outstanding were as follows:

Group and Bank	**2012**	**2011**
PIP Units (millions)		
As at 1 January	-	0.20
Granted	-	-
Share transferred out	-	-
Delivered	-	(0.20)
Forfeited	-	-
As at 31 December	**-**	**-**

31. Related Parties

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

The CSi group has significant related party balances with subsidiaries and affiliates of CSG. These transactions largely comprise derivative trades, as the Bank is the principal risk taker for derivatives within the CS group, as well as funding trades via use of loans or deposits, repurchase or repurchase agreements. In addition, the ordinary, preference and participating shares are issued to CSG and subsidiaries of CSG, as outlined in Note 28 – Share Capital and Share Premium. The Bank is also charged for operating costs that mainly relate to employee-related services and other business expenses. Further, these transactions also include transfer pricing income/charges with CS group entities that provide services in respect of the global derivatives business which is centrally booked in the Bank.

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

In addition to the above, liabilities due to the CS group's own defined benefit pension funds as of 31 December 2012 of USD 274 million (2011: USD 391 million) are reflected in the CSi group's Consolidated Statement of Financial Position.

a) Related party assets and liabilities

Group	31 December 2012			31 December 2011		
	Parent	Fellow group companies	Total	Parent	Fellow group companies	Total
Assets (USD million)						
Cash and due from banks	115	16,567	16,682	55	13,233	13,288
Interest-bearing deposits with banks	-	2,525	2,525	-	1,496	1,496
Securities purchased under resale agreements and securities borrowing transactions	-	23,629	23,629	2	29,311	29,313
Trading financial assets at fair value through profit or loss	4,819	36,292	41,111	5,280	45,060	50,340
Financial assets designated at fair value through profit or loss	8	4,954	4,962	266	5,872	6,138
Other loans and receivables	-	12,049	12,049	-	12,029	12,029
Other assets	3	8,227	8,230	38	9,640	9,678
Current tax asset	-	-	-	-	36	36
Intangible assets	-	-	-	-	3	3
Total assets	**4,945**	**104,243**	**109,188**	**5,641**	**116,680**	**122,321**

Liabilities (USD million)						
Deposits	1	2,243	2,244	31	1,681	1,712
Securities sold under repurchase agreements and securities lending transactions	-	4,874	4,874	-	6,950	6,950
Trading liabilities at fair value through profit or loss	2,194	38,713	40,907	2,820	48,336	51,156
Financial liabilities designated at fair value through profit or loss	13	12,790	12,803	23	9,839	9,862
Short term borrowings	-	29,717	29,717	-	32,742	32,742
Long term debt	-	30,534	30,534	-	31,545	31,545
Other liabilities	2	3,545	3,547	25	2,529	2,554
Share capital	855	2,253	3,108	998	8,627	9,625
Share premium	4,491	8,208	12,699	108	908	1,016
Total liabilities	**7,556**	**132,877**	**140,433**	**4,005**	**143,157**	**147,162**

Bank	31 December 2012				31 December 2011			
		Fellow group	Subsidiaries			Fellow group	Subsidiaries	
	Parent	companies	and SPEs	Total	Parent	companies	and SPEs	Total
Assets (USD million)								
Cash and due from banks	115	16,567	-	16,682	55	13,233	-	13,288
Intangible assets	-	-	-	-	-	3	-	3
Interest-bearing deposits with banks	-	2,525	-	2,525	-	1,496	-	1,496
Securities purchased under resale agreements and securities borrowing transactions	-	23,629	-	23,629	2	29,311	-	29,313
Trading assets at fair value through profit or loss	4,819	36,292	889	42,000	5,280	45,060	1,293	51,633
Financial assets designated at fair value through profit or loss	8	4,954	-	4,962	266	5,872	-	6,138
Other loans and receivables	-	12,049	-	12,049	-	12,029	-	12,029
Other assets	3	8,236	302	8,541	38	9,635	301	9,974
Investments in subsidiary undertakings	-	-	10	10	-	-	10	10
Current tax assets	-	-	-	-	-	36	-	36
Total assets	**4,945**	**104,252**	**1,201**	**110,398**	**5,641**	**116,675**	**1,604**	**123,920**

Liabilities (USD million)								
Deposits	1	2,243	-	2,244	31	1,681	-	1,712
Securities sold under repurchase agreements and securities lending transactions	-	4,874	-	4,874	-	6,950	-	6,950
Trading liabilities at fair value through profit or loss	2,194	38,713	75	40,982	2,820	48,336	578	51,734
Financial liabilities designated at fair value through profit or loss	13	12,790	-	12,803	23	9,839	-	9,862
Short term borrowings	-	29,717	24	29,741	-	32,742	24	32,766
Long term debt	-	30,534	-	30,534	-	31,542	-	31,542
Other liabilities	2	3,545	32	3,875	25	2,529	315	2,869
Share capital	855	2,253	-	3,108	998	8,627	-	9,625
Share premium	4,491	8,208	-	12,699	108	908	-	1,016
Total liabilities	**7,556**	**132,877**	**427**	**140,860**	**4,005**	**143,154**	**917**	**148,076**

b) Related party revenues and expenses

Group (USD million)	31 December 2012			31 December 2011		
	Parent	Fellow group companies	Total	Parent	Fellow group companies	Total
Interest income	-	448	448	23	373	396
Interest expense	-	(1,089)	(1,089)	-	(1,051)	(1,051)
Net interest expense	**-**	**(641)**	**(641)**	**23**	**(678)**	**(655)**
Commissions and fees	5	(161)	(156)	-	(217)	(217)
Revenue sharing agreements expense	(14)	(720)	(734)	(17)	(441)	(458)
Other Revenue	-	5	5	-	8	8
Total non-interest revenues	**(9)**	**(876)**	**(885)**	**(17)**	**(650)**	**(667)**
Net operating income	**(9)**	**(1,517)**	**(1,526)**	**6**	**(1,328)**	**(1,322)**
Total operating expenses	**-**	**(125)**	**(125)**	**(1)**	**(800)**	**(801)**

c) Remuneration

Disclosure required by the Companies Act 2006

Remuneration of Directors

	2012 USD'000	2011 USD'000
Emoluments	2,619	3,681
Long term incentive schemes:		
■ Amounts paid under Deferred Cash Awards	4,020	2,462
■ Amounts delivered under Shared Based Awards	4,894	5,703
Total	**11,533**	**11,846**
Compensation for loss of office	4,393	-
Bank's contributions to defined contribution and benefits plan	131	140
Total	**16,057**	**11,986**

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

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

The aggregate of emoluments and deferred cash awards paid to or receivable by the highest paid director was USD 6,641,000 (2011: USD 2,671,000). The director was also a member of a defined contribution pension plan and the contribution paid during the year into the plan was USD 11,000 (2011: USD 7,000). During the year the highest paid director also received an entitlement to shares under a long term incentive scheme.

The amounts included in the Companies Act disclosures are on a different basis than the recognition requirements of IFRS 2 and IAS 37 and the disclosure requirements of IAS 24. The aggregate amount of remuneration accrued in the Bank's accounts for directors in accordance with IFRS requirements for 2012 was USD 15,915,000 (2011: USD 11,729,000).

d) Number of Directors and Benefits

	2012	2011
Number of Directors		
Retirement benefits are accruing to the following number of Directors under:		
Defined contribution schemes	2	6
No scheme	3	1
Both defined contribution and defined benefit	4	5
The number of Directors who exercised share options	-	-
Directors in respect of whom services were received or receivable under long term incentive schemes	**9**	**12**

e) Remuneration of Key Management Personnel

	2012	2011
Remuneration of Key Management Personnel (USD' 000)		
Emoluments	8,184	10,314
Long term incentive schemes	24,478	17,991
Total	**32,662**	**28,305**
Compensation for loss of office	5,293	-
Bank's contributions to defined contribution and benefits plan	243	572
Total	**38,198**	**28,877**

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

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

CSG Shares awarded to Key Management Personnel

	2012	2011
Number of other shares	1,011,321	575,673

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

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

Key management personnel include Directors and the members of EMEA ('Europe, Middle East and Africa') Operating Committee.

f) Loans and Advances to Directors and Key Management Personnel

There were no loans outstanding to or due from Directors or key management personnel of the CSi group at 31 December 2012 (2011: USD Nil).

32. Employees

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

Group and Bank	2012	2011
Front office	380	417
Back office	439	504
Total	**819**	**921**

The CSi group receives a range of services from related companies, in particular from fellow subsidiary Credit Suisse Securities (Europe) Limited which is the primary Credit Suisse employing entity in the UK. The headcount related to these services cannot be accurately ascertained and is not therefore included in the above numbers. Staff costs and staff numbers do not differ between Bank and CSi group.

33. Derivatives and Hedging Activities

Derivatives are generally either privately negotiated OTC contracts or standard contracts transacted through regulated exchanges. The Bank's most frequently used freestanding derivative products, entered into for trading and risk management purposes, include interest rate, equity, cross currency and credit default swaps, interest rate and foreign currency options, foreign exchange forward contracts, and foreign currency and interest rate futures.

Furthermore, the Bank enters into contracts that are not considered derivatives in their entirety but include embedded derivatives features. Such transactions primarily include issued and purchased structured debt instruments where the return may be calculated by reference to an equity security, index, or third-party credit risk or that have non-standard or foreign currency terms.

On the date the derivative contract is entered into, the Bank designates the derivative as belonging to one of the following categories:

- a trading activity;
- a risk management transaction that does not qualify as a hedge under accounting standards (referred to as an economic hedge); or
- a hedge of the fair value of a recognised asset or liability.

Trading Activities

The Bank is active in most of the principal trading markets and transacts in many popular trading and hedging products. As noted above, this includes the use of swaps, futures, options and structured products (custom transactions using combinations of derivatives) in connection with its sales and trading activities. Trading activities include market-making, positioning and arbitrage activities. The majority of the Bank's derivatives held as at 31 December 2012 were used for trading activities.

Economic Hedges

Economic hedges arise when the CSi group enters into derivative contracts for its own risk management purposes, but the contracts entered into do not qualify for hedge accounting under IFRS. These economic hedges include the following types:

- interest rate derivatives to manage net interest rate risk on certain banking business assets and liabilities;
- foreign exchange derivatives to manage foreign exchange risk on certain banking business revenue and expense items, as well as on banking business assets and liabilities; and
- credit derivatives to manage credit risk on certain loan portfolios.

The following table sets forth details of trading derivatives instruments:

Group	2012		2011	
	Positive replacement value	Negative replacement value	Positive replacement value	Negative replacement value
Trading derivatives instruments (USD million)				
Forwards and forward rate agreements	1,997	1,960	2,666	2,371
Swaps	708,749	699,803	716,621	707,041
Options bought and sold (OTC)	68,235	68,472	70,179	70,751
Options bought and sold (traded)	183	100	274	160
Interest rate products	**779,164**	**770,335**	**789,740**	**780,323**
Forwards and forward rate agreements	10,144	10,358	6,628	7,033
Swaps	36,213	51,757	37,708	55,902
Options bought and sold (OTC)	9,942	10,447	10,502	10,739
Foreign exchange products	**56,299**	**72,562**	**54,838**	**73,674**
Forwards and forward rate agreements	885	1,135	1,338	1,393
Swaps	1	2	-	-
Options bought and sold (OTC)	526	545	900	879
Precious metals products	**1,412**	**1,682**	**2,238**	**2,272**
Forwards and forward rate agreements	2	1	22	1
Swaps	4,268	5,600	5,322	4,913
Options bought and sold (OTC)	11,910	12,248	14,700	15,323
Options bought and sold (traded)	13,890	13,651	17,400	19,826
Equity/indexed-related products	**30,070**	**31,500**	**37,444**	**40,063**
Swaps	39,345	38,863	72,707	71,194
Options bought and sold (OTC)	36	35	74	42
Credit products	**39,381**	**38,898**	**72,781**	**71,236**
Forwards and forward rate agreements	75	96	561	526
Swaps	2,014	1,674	4,816	4,898
Options bought and sold (OTC)	974	804	1,191	932
Options bought and sold (traded)	817	1,024	1,225	1,495
Other products	**3,880**	**3,598**	**7,793**	**7,851**
Total trading derivative instruments	**910,206**	**918,575**	**964,834**	**975,419**

Bank	2012		2011	
	Positive replacement value	Negative replacement value	Positive replacement value	Negative replacement value
Trading derivatives instruments (USD million)				
Forwards and forward rate agreements	1,997	1,960	2,666	2,371
Swaps	708,915	699,829	716,760	707,055
Options bought and sold (OTC)	68,235	68,472	70,178	70,751
Options bought and sold (traded)	183	100	274	160
Interest rate products	**779,330**	**770,361**	**789,878**	**780,337**
Forwards and forward rate agreements	10,144	10,358	6,628	7,033
Swaps	36,313	51,757	38,153	56,211
Options bought and sold (OTC)	9,942	10,447	10,501	10,739
Foreign exchange products	**56,399**	**72,562**	**55,282**	**73,983**
Forwards and forward rate agreements	885	1,135	1,338	1,393
Swaps	1	2	-	-
Options bought and sold (OTC)	526	545	900	879
Precious metals products	**1,412**	**1,682**	**2,238**	**2,272**
Forwards and forward rate agreements	2	1	22	1
Swaps	4,268	5,625	5,322	5,113
Options bought and sold (OTC)	11,910	12,248	14,700	15,328
Options bought and sold (traded)	13,890	13,651	17,400	19,824
Equity/indexed-related products	**30,070**	**31,525**	**37,444**	**40,266**
Swaps	39,345	38,863	72,707	71,194
Options bought and sold (OTC)	36	35	74	42
Credit products	**39,381**	**38,898**	**72,781**	**71,236**
Forwards and forward rate agreements	163	103	694	526
Swaps	2,014	1,674	4,817	4,924
Options bought and sold (OTC)	974	893	1,191	1,073
Options bought and sold (traded)	817	1,024	1,225	1,495
Other products	**3,968**	**3,694**	**7,927**	**8,018**
Total trading derivative instruments	**910,560**	**918,722**	**965,550**	**976,112**

Group	2012		2011	
	Positive replacement value	Negative replacement value	Positive replacement value	Negative replacement value
Replacement values (USD million)				
Replacement values (trading and hedging) before netting	910,206	918,575	964,834	975,419
Replacement values (trading and hedging) after netting	506,232	514,265	529,346	540,734

Bank	2012		2011	
	Positive replacement value	Negative replacement value	Positive replacement value	Negative replacement value
Replacement values (USD million)				
Replacement values (trading and hedging) before netting	910,560	918,721	965,550	976,112
Replacement values (trading and hedging) after netting	506,587	514,411	530,064	541,427

34. Guarantees and Commitments

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

Group and Bank	**Maturity**				**Total gross**	**Collateral**	**Net of**
31 December 2012	**<1 year**	**1-3 years**	**3-5 years**	**>5 years**	**amount**	**received**	**collateral**
Guarantees (USD million)							
Credit guarantees and similar instruments	204	659	-	-	863	19	844
Performance guarantees and similar instruments	3	92	-	-	95	-	95
Total guarantees	**207**	**751**	**-**	**-**	**958**	**19**	**939**

Group and Bank	**Maturity**				**Total gross**	**Collateral**	**Net of**
31 December 2012	**<1 year**	**1-3 years**	**3-5 years**	**>5 years**	**amount**	**received**	**collateral**
Other commitments (USD million)							
Irrevocable commitments under documentary credit	7	25	-	-	32	-	32
Loan commitments	5,732	4,633	1,516	19	11,900	52	11,848
Total other commitments	**5,739**	**4,658**	**1,516**	**19**	**11,932**	**52**	**11,880**

Group and Bank	**Maturity**				**Total gross**	**Collateral**	**Net of**
31 December 2011	**<1 year**	**1-3 years**	**3-5 years**	**>5 years**	**amount**	**received**	**collateral**
Guarantees (USD million)							
Credit guarantees and similar instruments	107	1,274	300	-	1,681	175	1,506
Performance guarantees and similar instruments	31	1,261	-	-	1,292	-	1,292
Total guarantees	**138**	**2,535**	**300**	**-**	**2,973**	**175**	**2,798**

Group and Bank	**Maturity**				**Total gross**	**Collateral**	**Net of**
31 December 2011	**<1 year**	**1-3 years**	**3-5 years**	**>5 years**	**amount**	**received**	**collateral**
Other commitments (USD million)							
Irrevocable commitments under documentary credit	10	63	29	-	102	-	102
Loan commitments	3,801	4,316	1,579	281	9,977	307	9,670
Total other commitments	**3,811**	**4,379**	**1,608**	**281**	**10,079**	**307**	**9,772**

Credit guarantees are contracts that require the CSi group to make payments, should a third party fail to do so under a specified existing credit obligation. For example, in connection with its corporate lending business and other corporate activities, the CSi group provides guarantees to counterparties in the form of standby letters of credit, which represent obligations to make payments to third parties if the counterparty fails to fulfill its obligation under a borrowing arrangement or other contractual obligation.

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

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

Lease Commitments

The following table sets forth details of future minimum operating lease commitments under non-cancellable operating leases:

Group and Bank	2012	2011
Operating lease commitments (USD million)		
Up to 1 year	105	68
From 1 year and no later than 5 years	423	270
From 5 years and over	1,286	600
Future operating lease commitments	**1,814**	**938**
Less minimum non-cancellable sublease rentals	(145)	(173)
Total net future minimum operating lease commitments	**1,669**	**765**

The future operating lease commitments include service charges of USD 17.2 million (2011: USD 13.6 million).

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

Group and Bank	2012	2011
Net rental expense (USD million)		
Minimum rentals	100	67
Sublease rental income	(88)	(42)
Total net rental expenses	**12**	**25**

Contingent Liabilities and Other Commitments

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

35. Securitisations, Special Purpose Entities and Other Structured Transactions

Consolidated SPEs

The CSi group is involved in the formation of Special Purpose Entities ('SPEs') primarily for the purpose of providing clients with structured investment opportunities, asset securitisation transactions and for buying or selling credit protection. The CSi group consolidates SPEs when the substance of the relationship between the CSi group and the SPE indicates that the SPE is controlled by the CSi group. Consideration is given to the CSi group's ability to control the activities of the SPE and the CSi group's exposure to the risks and benefits of the SPE.

Group	**2012**	**2011**
SPE exposures (USD million)		
Consolidated SPEs		
CDO	-	-
Financial intermediation	1,649	1,826
Total assets of consolidated SPEs (excluding those held with bank)	**1,649**	**1,826**

The aggregate Statement of Financial Positions in relation to consolidated SPEs includes consolidation of China A Share Fund jointly managed by Credit Suisse AG and Industrial and Commercial Bank of China. CSi holds 80% of the total units of the fund and the remaining 20% are held by Credit Suisse Securities (Europe) Limited. CSi group has consolidated the entire fund and the remaining equity not attributable to the CSi group is represented by noncontrolling interest.

Non-consolidated SPEs

Group and Bank	**2012**	**2011**
SPE exposures (USD milion)		
Non-consolidated SPEs		
CDO	4,146	6,799
Financial intermediation	24,154	29,783
Total assets of non-consolidated SPEs	**28,300**	**36,582**
Total maximum exposure to loss of non-consolidated SPEs		
CDO	14	29
Financial intermediation	2,510	4,120

The non-consolidated SPEs table provides the carrying amounts and classification of the assets and liabilities recorded in the CSi group's Consolidated Statement of Financial Position, maximum exposure to loss and total assets of the non-consolidated SPEs.

Maximum exposure to loss represents non-consolidated SPEs that are recorded by the CSi group (for example, direct holdings in vehicles, loans and other receivables), as well as notional amounts of guarantees and off-balance sheet commitments which are variable interests that have been extended to non-consolidated SPEs. Such amounts, particularly notional amounts of derivatives and guarantees, do not represent the anticipated losses in connection with these transactions as they do not take into consideration the effect of collateral, recoveries or the probability of loss. In addition, they exclude the effect of offsetting financial instruments that are held to mitigate these risks and have not been reduced by unrealised losses previously recorded by the CSi group in connection with guarantees or derivatives.

Non-consolidated SPE assets are related to the non-consolidated SPEs with whom the CSi group has interests. These amounts represent the assets of the exposures the CSi group has with the entity and thus are not amounts that are considered for risk management purposes.

Certain SPEs have not been included in the following table including SPEs structured by third parties in which the CSi group's interest is in the form of securities held in the CSi group's inventory, certain single-asset financing vehicles not sponsored by the CSi group to which the CSi group provides financing but has very little risk of loss due to over-collateralisation and guarantees, failed sales where the CSi group does not have any other holdings and other entities out of scope.

The non-consolidated SPEs are SPEs where CSi has a continuing involvement with the SPE (including both CSi and third party sponsored) and does not have the majority of the risks and rewards of ownership.

The Bank will consider all possible trigger events which would impact upon the control of an SPE as set out in Note 3 – Critical Accounting Estimates and Judgements in Applying Accounting Policies, including those we do not currently consolidate, and reflect this in Bank's current determination as to whether or not the Bank should consolidate.

The aggregate Statement of Financial Positions value (including amounts held with the Bank) in relation to Consolidated SPEs is shown below.

Group	**2012**	**2011**
Assets (USD million)		
Cash and due from banks	137	44
Other financial assets designated at fair value through profit or loss	174	-
Trading assets	1,387	2,232
Investment property	518	561
Current tax assets	-	-
Other assets	4	-
Property and equipment	15	15
Total assets	**2,235**	**2,852**
Liabilities (USD million)		
Deposits	128	120
Trading liabilities	331	602
Short term borrowings	-	-
Other financial liabilities designated at fair value through profit or loss	1,775	2,121
Other liabilities	11	2
Share capital	(32)	7
Subsidiaries acquired in the year	22	
Total liabilities	**2,235**	**2,852**

36. Financial Instruments

Fair value of financial instruments carried at fair value

Fair value is the amount for which an asset could be exchanged, or a liability settled, between knowledgeable, willing parties in an arm's length transaction. The fair value of the majority of the CSi group's financial instruments is based on quoted prices in active markets or observable inputs. These instruments include government and agency securities, certain CP, most investment grade corporate debt, certain high yield debt securities, exchange-traded and certain OTC derivative instruments and most listed equity securities.

In addition, the CSi group holds financial instruments for which no prices are available and which have little or no observable inputs. Further deterioration of financial markets could significantly impact the value of these financial instruments and the results of operations. For these instruments, the determination of fair value requires subjective assessment and varying degrees of judgement, 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, most mortgage-related and Collateralised Debt Obligation ('CDO') securities, certain equity derivatives and equity-linked securities, certain loans and credit products, including leveraged finance, certain syndicated loans and certain high-grade bonds, and life insurance instruments.

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

The CVA adjustment is computed on a portfolio basis, by integrating the discounted recovery-adjusted expected positive exposure of the underlying portfolio over the counterparty default period between today and the final maturity of the portfolio. The default probabilities are determined from CDS spreads.

Fair value hierarchy

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

- Level 1: Quoted market prices (unadjusted) in active markets for identical assets and liabilities.
- Level 2: Inputs other than quoted prices included within Level 1 that are observable for the asset or liabilities, either directly (i.e. as prices) or indirectly (i.e. derived from prices).
- Level 3: Inputs for the asset or liability that is not based on observable market data (unobservable inputs).

For cash and other liquid assets and money market instruments maturing within three months, the fair value is generally based on observable inputs. For those items with a stated maturity exceeding three months, fair value is calculated using a discounted cash flow analysis.

Qualitative disclosures of valuation techniques

Money market instruments

Traded money market instruments include instruments such as bankers' acceptances, certificates of deposit, commercial papers, book claims, treasury bills and other rights, which are held for trading purposes. Valuations of money market instruments are generally based on observable inputs.

Debt securities

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

Corporate bonds

Corporate bonds are priced to reflect current market levels either through recent market transactions or to broker or dealer quotes.

Where a market price for the particular security is not directly available, valuations are obtained based on yields reflected by other instruments in the specific or similar entity's capital structure and adjusting for differences in seniority and maturity, benchmarking to a comparable security where market data is available (taking into consideration differences in credit, liquidity and maturity) or through the application of cash flow modelling techniques utilising observable inputs, such as current interest rate curves and observable CDS spreads. The majority of Corporate Bonds are categorised as Level 2.

CMBS, RMBS and ABS/CDO structures

Values of Residential Mortgage Backed Securities ('RMBS'), Commercial Mortgage Backed Securities ('CMBS') and other Assets Backed Securities ('ABS') 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. Values of RMBS, CMBS and other ABS for which there are no significant observable inputs are valued using benchmarks to similar transactions or indices and other valuation models.

For most structured debt securities determination of fair value requires subjective assessment depending on liquidity, ownership concentration, and the current economic and competitive environment. Valuation is determined based on management's own assumptions about how market participants would price the asset.

Collateralised bond and loan obligations are split into various structured tranches and each tranche is valued based upon its individual rating and the underlying collateral supporting the structure. Valuation models are used to value both cash and synthetic CDOs. The majority of CMBS/RMBS/ABS/CDO structures are categorised as Level 3.

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 equities include fund-linked products, convertible bonds or equity securities with restrictions and therefore are not traded in active markets.

Fund-linked products

Fund-linked products consist of investments in third-party hedge funds and funds of funds. The method of measuring fair value for these investments is the same as those described for other alternative capital investments below.

Convertible bonds

Convertible bonds are generally valued using observable pricing sources. For a small minority of convertible bonds, no observable prices are available, and valuation is determined using internal and external models, for which the key inputs include stock prices, dividend rates, credit spreads (corporate and sovereign), yield curves, foreign exchange rates, prepayment rates and borrowing costs and single stock and equity market volatility.

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. Some observable exchange prices may not be considered executable at the reporting date and may have been adjusted for liquidity concerns. For those instruments where liquidity adjustments have been made to the exchange price, such as long-dated option contracts, the instrument has been included in Level 2 of the fair value hierarchy.

The fair values of OTC derivatives are determined on the basis of either industry standard models or internally developed proprietary models. Both model types use various observable and unobservable inputs in order to determine fair value. The inputs include those characteristics of the derivative that have a bearing on the economics of the instrument.

The determination of the fair value of many derivatives involves only a limited degree of subjectivity because the required inputs are observable in the marketplace, while more complex derivatives may use unobservable inputs that rely on specific proprietary modelling assumptions. Examples of such specific unobservable inputs include long-dated volatility assumptions on OTC option transactions and recovery rate assumptions for credit derivative transactions.

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, 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 value is derived from unobservable inputs are categorised as Level 3.

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, basis swap spreads, constant maturity convexity adjustments, constant maturity treasury spreads, inflation index correlations, inflation seasonality, single and quanto interest rate correlations, cross asset correlations, mean reversion, serial correlation and conditional prepayment rate assumptions.

Foreign exchange derivatives

Foreign exchange derivatives include vanilla products such as spot, forward and option contracts where the anticipated discounted future cash flows are determined from foreign exchange forward curves and industry standard optionality modelling techniques. Where applicable, exchange traded prices are also used for futures and option prices. For more complex products inputs include, but are not limited to, foreign exchange rate correlations, quanto cross asset correlations and volatility skew assumptions.

Equity derivatives

Equity derivatives include vanilla options and swaps in addition to different types of exotic options. Inputs for equity derivatives can include borrowing costs, dividend curves, equity to equity correlations, equity to foreign exchange rate correlations, single name and index volatility, fund gap risk, fund volatility, interest rate to equity correlation and yield curve.

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 spreads and recovery rates.

Complex structured credit derivatives are valued using proprietary models requiring inputs such as credit spreads, recovery rates, credit volatilities, default correlations, cash/synthetic basis spreads and prepayment rates. These input parameters are generally implied from available market observable data.

Loans

The CSi group's loan portfolio measured at fair value includes commercial loans, residential loans, corporate loans, leveraged financed 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. The CSi group's other assets and liabilities include mortgage loans held in conjunction with securitisation activities and assets and liabilities of SPEs and mortgage securitisations that do not meet the criteria for sale treatment under IFRS. The fair value of mortgage loans held in conjunction with securitisation activities is determined on a whole-loan basis. Whole loan valuations are calculated based on the exit price reflecting the current market conditions. The fair value of assets and liabilities of SPEs and mortgage securitisations that do not meet the criteria for sale treatment under IFRS is determined based on the quoted prices for securitised bonds, where available, or on cash flow analyses for securitised bonds, when quoted prices are not available. All loans are classified as Level 2 and 3.

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 bifurcatable and non-bifurcatable) 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 firms' stand-alone derivatives as discussed above. The fair value of structured debt is heavily influenced by the combined call options and performance of the underlying derivative returns. Vanilla debt is fair valued to the new issue market using risk-free yield curves for similar maturities and the CSi group's own credit spread. The majority of short term borrowings are categorised as Level 2. The majority of long-term debt is categorised as Levels 2 and 3.

Financial assets and liabilities 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.

Group 2012		**Carrying value**			
	Fair Value	**Held for trading**	**Designated at fair value**	**Other loans and receivables**	**Total**
Financial Assets (USD million)					
Cash and due from banks	18,690	-	-	18,690	18,690
Interest-bearing deposits with banks	2,525	-	-	2,525	2,525
Securities purchased under resale agreements and securities borrowing transactions	24,103	-	-	24,103	24,103
Trading financial assets at fair value through profit or loss	557,333	557,333	-	-	557,333
Financial assets designated at fair value through profit or loss	20,128	-	20,128	-	20,128
Loans and receivables	13,506	-	-	13,509	13,509
Other investments	33	-	-	33	33
Other assets	53,960	-	-	53,960	53,960
Total financial assets	**690,278**	**557,333**	**20,128**	**112,820**	**690,281**
Financial Liabilities (USD million)					
Deposits	4,844	-	-	4,844	4,844
Securities sold under repurchase agreements and securities lending transactions	4,874	-	-	4,874	4,874
Trading financial liabilities at fair value through profit or loss	525,737	525,737	-	-	525,737
Financial liabilities designated at fair value through profit or loss	36,644	-	36,644	-	36,644
Short term borrowings	29,741	-	-	29,718	29,718
Long term debt	32,177	-	-	30,654	30,654
Other liabilities	44,942	-	-	44,942	44,942
Total financial liabilities	**678,959**	**525,737**	**36,644**	**115,032**	**677,413**

Group 2011		Carrying value			
	Fair Value	Held for trading	Designated at fair value	Other loans and receivables	Total
Financial Assets (USD million)					
Cash and due from banks	14,795	-	-	14,795	14,795
Interest-bearing deposits with banks	1,496	-	-	1,496	1,496
Securities purchased under resale agreements and securities borrowing transactions	29,406	-	-	29,406	29,406
Trading financial assets at fair value through profit or loss	574,734	574,734	-	-	574,734
Financial assets designated at fair value through profit or loss	18,701	-	18,701	-	18,701
Loans and receivables	14,344	-	-	14,343	14,343
Other investments	31	-	-	31	31
Other assets	55,744	-	-	55,744	55,744
Total financial assets	**709,251**	**574,734**	**18,701**	**115,815**	**709,250**
Financial Liabilities (USD million)					
Deposits	4,451	-	-	4,451	4,451
Securities sold under repurchase agreements and securities lending transactions	6,971	-	-	6,971	6,971
Trading financial liabilities at fair value through profit or loss	551,224	551,224	-	-	551,224
Financial liabilities designated at fair value through profit or loss	31,352	-	31,352	-	31,352
Short term borrowings	32,742	-	-	32,742	32,742
Long term debt	34,607		-	31,673	31,673
Other liabilities	42,835	-	-	42,835	42,835
Total financial liabilities	**704,182**	**551,224**	**31,352**	**118,672**	**701,248**

Bank 2012		Carrying value			
	Fair Value	Held for trading	Designated at fair value	Other loans and receivables	Total
Financial Assets (USD million)					
Cash and due from banks	18,553	-	-	18,553	18,553
Interest-bearing deposits with banks	2,525	-	-	2,525	2,525
Securities purchased under resale agreements and securities borrowing transactions	24,103	-	-	24,103	24,103
Trading financial assets at fair value through profit or loss	557,302	557,302	-	-	557,302
Financial assets designated at fair value through profit or loss	20,128	-	20,128	-	20,128
Loans and receivables	13,510	-	-	13,513	13,513
Other assets	54,268	-	-	54,268	54,268
Total financial assets	**690,389**	**557,302**	**20,128**	**112,962**	**690,392**
Financial Liabilities (USD million)					
Deposits	4,844	-	-	4,844	4,844
Securities sold under repurchase agreements and securities lending transactions	4,874	-	-	4,874	4,874
Trading financial liabilities at fair value through profit or loss	525,883	525,883	-	-	525,883
Financial liabilities designated at fair value through profit or loss	35,797	-	35,797	-	35,797
Short term borrowings	29,765	-	-	29,742	29,742
Long term debt	32,172	-	-	30,649	30,649
Other liabilities	45,256	-	-	45,256	45,256
Total financial liabilities	**678,591**	**525,883**	**35,797**	**115,365**	**677,045**

Bank 2011			**Carrying value**		
	Fair Value	**Held for trading**	**Designated at fair value**	**Other loans and receivables**	**Total**
Financial Assets (USD million)					
Cash and due from banks	14,750	-	-	14,750	14,750
Interest-bearing deposits with banks	1,496	-	-	1,496	1,496
Securities purchased under resale agreements and securities borrowing transactions	29,406	-	-	29,406	29,406
Trading financial assets at fair value through profit or loss	574,953	574,953	-	-	574,953
Financial assets designated at fair value through profit or loss	18,701	-	18,701	-	18,701
Loans and receivables	14,349	-	-	14,348	14,348
Other assets	56,066	-	-	56,066	56,066
Total financial assets	**709,721**	**574,953**	**18,701**	**116,066**	**709,720**
Financial Liabilities (USD million)					
Deposits	4,451	-	-	4,451	4,451
Securities sold under repurchase agreements and securities lending transactions	6,971	-	-	6,971	6,971
Trading financial liabilities at fair value through profit or loss	551,916	551,916	-	-	551,916
Financial liabilities designated at fair value through profit or loss	30,298	-	30,298	-	30,298
Short term borrowings	32,766	-	-	32,766	32,766
Long term debt	34,607	-	-	31,645	31,645
Other liabilities	43,137	-	-	43,137	43,137
Total financial liabilities	**704,146**	**551,916**	**30,298**	**118,970**	**701,184**

Fair value hierarchy

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 31 December 2012 **Group**	**Quoted Prices in active markets for the same instruments (Level 1)**	**Valuation techniques observable inputs (Level 2)**	**Valuation techniques unobservable inputs (Level 3)**	**Impact of netting[1]**	**Total at fair value**
Assets at fair value (USD million)					
Trading financial assets at fair value through profit or loss	24,496	927,825	8,986	(403,974)	557,333
Financial assets designated at fair value through profit or loss	-	16,450	3,678	-	20,128
Total assets at fair value	**24,496**	**944,275**	**12,664**	**(403,974)**	**577,461**
Liabilities at fair value (USD million)					
Trading financial liabilities at fair value through profit or loss	12,036	912,082	5,929	(404,310)	525,737
Financial liabilities designated at fair value through profit or loss	-	31,360	5,284	-	36,644
Total liabilities at fair value	**12,036**	**943,442**	**11,213**	**(404,310)**	**562,381**

As at 31 December 2011 **Group**	**Quoted Prices in active markets for the same instruments (Level 1)**	**Valuation techniques observable inputs (Level 2)**	**Valuation techniques unobservable inputs (Level 3)**	**Impact of netting[1]**	**Total at fair value**
Assets at fair value (USD million)					
Trading financial assets at fair value through profit or loss	21,260	973,608	15,353	(435,487)	574,734
Financial assets designated at fair value through profit or loss	-	13,571	5,130	-	18,701
Total assets at fair value	**21,260**	**987,179**	**20,483**	**(435,487)**	**593,435**
Liabilities at fair value (USD million)					
Trading financial liabilities at fair value through profit or loss	12,620	964,653	8,636	(434,685)	551,224
Financial liabilities designated at fair value through profit or loss	-	24,473	6,879	-	31,352
Total liabilities at fair value	**12,620**	**989,126**	**15,515**	**(434,685)**	**582,576**

[1] Derivative contracts 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 2012 Bank	Quoted Prices in active markets for the same instruments (Level 1)	Valuation techniques observable inputs (Level 2)	Valuation techniques unobservable inputs (Level 3)	Impact of netting[1]	Total at fair value
Assets at fair value (USD million)					
Trading financial assets at fair value through profit or loss	24,496	927,170	9,610	(403,974)	557,302
Other financial assets designated at fair value through profit or loss	-	16,450	3,678	-	20,128
Total assets at fair value	**24,496**	**943,620**	**13,288**	**(403,974)**	**577,430**
Liabilities at fair value (USD million)					
Trading financial liabilities at fair value through profit or loss	12,035	912,230	5,928	(404,310)	525,883
Financial liabilities designated at fair value through profit or loss	-	30,523	5,274	-	35,797
Total liabilities at fair value	**12,035**	**942,753**	**11,202**	**(404,310)**	**561,680**

As at 31 December 2011 Bank	Quoted Prices in active markets for the same instruments (Level 1)	Valuation techniques observable inputs (Level 2)	Valuation techniques unobservable inputs (Level 3)	Impact of netting[1]	Total at fair value
Assets at fair value (USD million)					
Trading financial assets at fair value through profit or loss	21,261	973,272	15,907	(435,487)	574,953
Financial assets designated at fair value through profit or loss	-	13,571	5,130	-	18,701
Total assets at fair value	**21,261**	**986,843**	**21,037**	**(435,487)**	**593,654**
Liabilities at fair value (USD million)					
Trading financial liabilities at fair value through profit or loss	12,619	965,346	8,636	(434,685)	551,916
Financial liabilities designated at fair value through profit or loss	-	23,432	6,866	-	30,298
Total liabilities at fair value	**12,619**	**988,778**	**15,502**	**(434,685)**	**582,214**

[1] Derivative contracts are reported on a gross basis by level. The impact of netting represents an adjustment related to counterparty netting.

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

As at December 2012								Trading revenues		Other revenues		
Group	Balance at beginning of period	Transfers in	Transfers out	Purchases	Sales	Issuances	Settlement	On transfers in[1]/out	On all others	On transfers in / out	On all others	Balance at end of period
Assets at fair value (USD million)												
Trading financial assets at fair value through profit or loss	15,353	1,748	(5,971)	4,389	(4,575)	859	(3,463)	69	577	-	-	8,986
Financial assets designated at fair value through profit or loss	5,130	54	(263)	386	(513)	2,243	(2,785)	0	(574)	-	-	3,678
Total assets at fair value	**20,483**	**1,802**	**(6,234)**	**4,775**	**(5,088)**	**3,102**	**(6,248)**	**69**	**3**	**-**	**-**	**12,664**
Liabilities at fair value (USD million)												
Trading financial liabilities at fair value through profit or loss	8,636	1,460	(2,490)	26	(280)	818	(3,350)	66	1,043	-	-	5,929
Financial liabilities designated at fair value through profit or loss	6,879	245	(847)	45	(192)	1,882	(3,333)	(33)	638	-	-	5,284
Total liabilities at fair value	**15,515**	**1,705**	**(3,337)**	**71**	**(472)**	**2,700**	**(6,683)**	**33**	**1,681**	**-**	**-**	**11,213**
Net assets/liabilities at fair value	**4,968**	**97**	**(2,897)**	**4,704**	**(4,616)**	**402**	**435**	**36**	**(1,678)**	**-**	**-**	**1,451**

[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 December 2011								Trading revenues		Other revenues		
Group	Balance at beginning of period	Transfers in	Transfers out	Purchases	Sales	Issuances	Settlement	On transfers in[1]/out	On all others	On transfers in / out	On all others	Balance at end of period
Assets at fair value (USD million)												
Trading financial assets at fair value through profit or loss	14,424	3,534	(2,956)	6,587	(5,375)	503	(3,178)	112	1,702	-	-	15,353
Financial assets designated at fair value through profit or loss	5,587	1,005	(950)	1,825	(1,703)	1,905	(2,049)	18	(508)	-	-	5,130
Total assets at fair value	**20,011**	**4,539**	**(3,906)**	**8,412**	**(7,078)**	**2,408**	**(5,227)**	**130**	**1,194**	**-**	**-**	**20,483**
Liabilities at fair value (USD million)												
Trading financial liabilities at fair value through profit or loss	11,062	1,589	(2,586)	40	118	64	(2,267)	205	411	-	-	8,636
Financial liabilities designated at fair value through profit or loss	9,040	645	(1,139)	329	(1,092)	3,195	(4,313)	5	209	-	-	6,879
Total liabilities at fair value	**20,102**	**2,234**	**(3,725)**	**369**	**(974)**	**3,259**	**(6,580)**	**210**	**620**	**-**	**-**	**15,515**
Net assets/liabilities at fair value	**(91)**	**2,305**	**(181)**	**8,043**	**(6,104)**	**(851)**	**1,353**	**(80)**	**574**	**-**	**-**	**4,968**

[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 December 2012								Trading revenues		Other revenues		
Bank	Balance at beginning of period	Transfers in	Transfers out	Purchases	Sales	Issuances	Settlement	On transfers in[1]/out	On all others	On transfers in / out	On all others	Balance at end of period
Assets at fair value (USD million)												
Trading financial assets at fair value through profit or loss	15,907	1,748	(5,971)	4,459	(4,575)	859	(3,463)	69	577	-	-	9,610
Financial assets designated at fair value through profit or loss	5,130	54	(263)	386	(513)	2,243	(2,785)	0	(574)	-	-	3,678
Total assets at fair value	**21,037**	**1,802**	**(6,234)**	**4,845**	**(5,088)**	**3,102**	**(6,248)**	**69**	**3**	**-**	**-**	**13,288**
Liabilities at fair value (USD million)												
Trading financial liabilities at fair value through profit or loss	8,636	1,460	(2,490)	25	(280)	818	(3,350)	66	1,043	-	-	5,928
Financial liabilities designated at fair value through profit or loss	6,866	245	(847)	44	(192)	1,882	(3,328)	(33)	637	-	-	5,274
Total liabilities at fair value	**15,502**	**1,705**	**(3,337)**	**69**	**(472)**	**2,700**	**(6,678)**	**33**	**1,680**	**-**	**-**	**11,202**
Net assets/liabilities at fair value	**5,535**	**97**	**(2,897)**	**4,776**	**(4,616)**	**402**	**430**	**36**	**(1,677)**	**-**	**-**	**2,086**

[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 December 2011								Trading revenues		Other revenues		
Bank	**Balance at beginning of period**	**Transfers in**	**Transfers out**	**Purchases**	**Sales**	**Issuances**	**Settlement**	**On transfers in[1]/out**	**On all others**	**On transfers in / out**	**On all others**	**Balance at end of period**
Assets at fair value (USD million)												
Trading financial assets at fair value through profit or loss	14,797	3,535	(2,956)	6,587	(5,748)	503	(3,178)	112	2,255	-	-	15,907
Financial assets designated at fair value through profit or loss	5,591	1,005	(950)	1,770	(1,355)	1,608	(2,049)	18	(508)	-	-	5,130
Total assets at fair value	**20,388**	**4,540**	**(3,906)**	**8,357**	**(7,103)**	**2,111**	**(5,227)**	**130**	**1,747**	**-**	**-**	**21,037**
Liabilities at fair value (USD million)												
Trading financial liabilities at fair value through profit or loss	11,062	1,589	(2,586)	40	117	65	(2,267)	205	411	-	-	8,636
Financial liabilities designated at fair value through profit or loss	8,940	645	(1,139)	429	(1,091)	3,166	(4,331)	5	242	-	-	6,866
Total liabilities at fair value	**20,002**	**2,234**	**(3,725)**	**469**	**(974)**	**3,231**	**(6,598)**	**210**	**653**	**-**	**-**	**15,502**
Net assets/liabilities at fair value	**386**	**2,306**	**(181)**	**7,888**	**(6,129)**	**(1,120)**	**1,371**	**(80)**	**1,094**	**-**	**-**	**5,535**

[1] Transfers in are effected at the end of the period, and no revenues are recognised in the above table for the period prior to the transfer. This has been implemented at the start of 2010.

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

As at 31 December 2012	Trading revenues	Other revenues	Total revenues
Group (USD million)			
Net realised/unrealised gains/(losses) included in net revenues	(1,642)	-	(1,642)
Whereof:			
Changes in unrealised gains or losses relating to assets and liabilities still held as of the reporting date	(1,175)	-	(1,175)

As at 31 December 2011	Trading revenues	Other revenues	Total revenues
Group (USD million)			
Net realised/unrealised gains/(losses) included in net revenues	494	-	494
Whereof:			
Changes in unrealised gains or losses relating to assets and liabilities still held as of the reporting date	(186)	-	(186)

As at 31 December 2012	Trading revenues	Other revenues	Total revenues
Bank (USD million)			
Net realised/unrealised gains/(losses) included in net revenues	(1,642)	-	(1,642)
Whereof:			
Changes in unrealised gains or losses relating to assets and liabilities still held as of the reporting date	(1,175)	-	(1,175)

As at 31 December 2011	Trading revenues	Other revenues	Total revenues
Bank (USD million)			
Net realised/unrealised gains/(losses) included in net revenues	1,014	-	1,014
Whereof:			
Changes in unrealised gains or losses relating to assets and liabilities still held as of the reporting date	(186)	-	(186)

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

The CSi group employs various economic hedging techniques in order to manage risks, including risks in Level 3 positions. Such techniques may include the purchase or sale of financial instruments that are classified in Levels 1 and/or 2. The realised and unrealised gains and losses for assets and liabilities in Level 3 presented in the table above do not reflect the related realised or unrealised gains and losses arising on economic hedging instruments classified in Levels 1 and/or 2.

Transfers in and out of Level 3

Transfers into Level 3 assets and Level 3 liabilities during 2012 of USD 1,802 million and USD 1,705 million respectively were primarily from derivatives, trading securities and loans. The transfers were related to trading and SPE consolidated positions within Leveraged Finance Trading, Non Agency RMBS, Structured Rates-Europe, Structured Credit and Prime Financing (Delta1) businesses primarily due to decreased observability and availability of pricing data.

Transfers out of Level 3 assets and Level 3 liabilities during 2012 of USD 6,234 million and USD 3,337 million were primarily from trading securities, derivatives and loans. The transfers were related to trading and SPE consolidated positions in Inflations Europe, Leveraged Finance Trading, Non-Agency RMBS, Structured Derivatives, Structured Rates-Europe, Credit Trading-Asia businesses primarily due to improved observability and availability of pricing data.

Sensitivity of fair values to reasonably possible alternative assumptions

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

Group	**As at 31 December 2012**		**As at 31 December 2011**	
	Favourable changes	**Unfavourable changes**	**Favourable changes**	**Unfavourable changes**
Impact on net income/(loss) (USD million)				
Derivative assets and liabilities	381	(452)	386	(463)
Asset backed securities, loans and derivatives	121	(112)	233	(84)
Debt and equity securities	99	(69)	135	(103)
Loans	71	(76)	88	(91)
Balance at the end of the period	**672**	**(709)**	**842**	**(741)**

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, 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 upward and downward. The movements varied by product and existing levels of correlation based upon management judgement. Volatility sensitivities are predominantly equity volatilities and are generally subjected to a 5% to 10% movement upward and downward. Credit spread sensitivities were subjected to generally equal movements upward and downward based upon management judgement and underlying market conditions.

Asset backed securities, loans and derivatives include CMBS, RMBS, ABS CDO and balance guaranteed swap positions. CMBS sensitivities are calculated by subjecting the recovery value on the underlying assets to a 5% movement upward and downward. The impact on the value of the underlying assets is an upward or downward movement greater than 10%. 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 upward. Recovery rates are held at what management believes to be conservative levels and were increased by 10% resulting in favorable uncertainty. RMBS positions were subjected to sensitivities on prepayment speeds which were estimated as one standard deviation of historical prepayments movement upward and downward. 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 upward and downward.

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

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 upward and downward. For corporate loans the parameter subjected to sensitivity analysis is the loan price which is subjected to an equal movement upward and downward 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 life of the contract or the fair value is expected to become observable. When inputs to the valuation model becomes observable or the CSi group enters into offsetting transactions that substantially eliminate the instrument's risk.

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

Group and Bank	2012	2011
Deferred trade date profit (USD million)		
Balance at the beginning of period	433	475
Increase due to new trades	175	265
Reduction due to passage of time	(37)	(34)
Reduction due to redemption, sales, transfers or improved observability	(177)	(273)
Balance at the end of period	**394**	**433**

Transfers between Level 1 and Level 2

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

Group and Bank	2012	2011
Assets (USD million)		
Trading financial assets at fair value through profit or loss	276	399
Total transfers in assets at fair value	**276**	**399**
Liabilities (USD million)		
Trading financial liabilities at fair value through profit or loss	8	-
Total transfers in liabilities at fair value	**8**	**-**

The transfers from Level 1 to Level 2 were mainly driven by trading securities where the liquidity had decreased and subsequently lacked pricing transparency.

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

Group and Bank	2012	2011
Assets (USD million)		
Trading financial assets at fair value through profit or loss	4,967	6,898
Total transfers in assets at fair value	**4,967**	**6,898**
Liabilities (USD million)		
Trading financial liabilities at fair value through profit or loss	5,128	5,773
Total transfers in liabilities at fair value	**5,128**	**5,773**

The transfers from Level 2 to Level 1 are mainly driven by transfer of exchange traded options as they moved closer to maturity and pricing inputs become more observable.

37. Assets Pledged or Assigned

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

Group and Bank	2012	2011
Assets pledged or assigned (USD million)		
Trading financial assets at fair value through profit or loss	33,761	35,540
Collateral received (USD million)		
Fair value of collateral received with the right to resell or repledge	40,251	49,230
▪ Of which sold or repledged	26,381	33,860

Assets pledged or assigned represents the balance sheet position of trading assets at fair value through profit or loss which have been pledged as collateral under securities sold under repurchase agreements, securities lending transactions and derivatives transactions. Refer to Note 15 – Trading Financial Assets and Liabilities at Fair Value Through Profit or Loss for the amount of securities transferred which are encumbered.

As at 31 December 2012 and 2011, collateral was received in connection with resale agreements, securities borrowings and loans, derivative transactions and margined broker loans. As at these dates, a substantial portion of the collateral received by the CSi group had been sold or repledged in connection with repurchase agreements, securities sold not yet purchased, securities lent, pledges to clearing organisations, segregation requirements under securities laws and regulations, derivative transactions and bank loans.

These transactions were generally conducted under terms that are usual and customary for standard securitised lending activities and the other transactions described. The CSi group, as the secured party, has the right to sell or repledge such collateral, subject to the CSi group returning equivalent securities upon completion of the transaction.

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

38. Derecognition

In the normal course of business, the CSi group enters into transactions in which it transfers previously recognised financial assets, such as debt securities, equity securities and other financial instruments. The CSi group's accounting policy regarding derecognition of such assets under IAS 39 is described in Note 2 – Significant Accounting Policies.

Transferred Financial Assets that are derecognised with continuing involvement

Where the transfer of a financial asset meets the derecognition criteria under IAS 39, the CSi group may have continuing involvement in a financial asset that has been derecognised. The continuing involvement can take several forms, including but not limited to derivative instruments and debt instruments issued by SPEs to which the asset has been transferred. In addition, the CSi group does not have a continuing involvement in a transferred financial asset if, as part of the transfer, the CSi group neither retains any of the contractual rights or obligations inherent in the transferred financial asset nor acquires any new contractual rights or obligations relating to the transferred financial asset. The CSi group does not have continuing involvement in a transferred financial asset if it has neither an interest in the future performance of the transferred financial asset nor a responsibility under any circumstances to make payments in respect of the transferred financial asset in the future. The CSi group's exposure resulting from continuing involvement in a transferred asset is generally limited to where the CSi group retains any form of rights or obligations relating to the transferred asset.

The table below provides information for the transfer of financial assets that qualify for sale accounting and subsequent derecognition, in which the CSi group still has continuing involvement as at 31 December 2012, irrespective of the date when the transfer occurred. The maximum exposure to loss from continuing involvement represents the maximum exposure before taking into account the amount of any collateral held against the continuing involvement.

Information on transferred assets by type of continuing involvement

Group and Bank (USD million)	Carrying amount of continuing involvement in statement of financial position		Fair value of continuing involvement		Maximum exposure to loss	Loss from transfer	Expense from continuing involvement (year-to-date)	Income from continuing involvement (life-to-date)
	Trading financial assets at fair value through profit or loss	Trading financial liabilities at fair value through profit or loss	Assets	Liabilities				
Type of continuing involvement								
Derivatives								
■ Swaps	213	(24)	213	(24)	213	(38)	(76)	154
Notes	122	-	122	-	122	-	-[1]	19

The table above includes continuing involvement in the form of derivative transactions. To reduce its credit risk to derivatives, the CSi group enters into legally enforceable netting agreements with its derivative counterparties. Collateral on these derivative contracts is usually posted on a net counterparty basis. Also included in the table are notes, that represent the CSi group's continuing involvement in the transferred asset which are fully collateralised.

Proceeds from transfer activity in the reporting period (where the asset has been derecognised in its entirety and there is continuing involvement) were distributed evenly across the reporting period.

The following table shows a maturity analysis of undiscounted cash outflows that the CSi group may be required to pay to repurchase the asset. The below table includes situations where the CSi group has an option to repurchase the asset. In such instances, where the timing of the cash flows is not specified, the total undiscounted amount has been included in the earliest maturity bucket in the disclosure below.

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

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

Group and Bank (USD million)	Total	On demand	Less than 1year	1 – 5 years	More than 5 years
Type of continuing involvement					
Derivatives[1]					
▪ Swaps	(1,179)	(1,179)	-	-	-

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

Transferred Financial Assets that are not derecognised in their entirety

Certain transactions may include provisions that prevent derecognition of the transferred financial asset and the transfers are accounted for as secured financing transactions. Repurchase agreements, securities lending agreements and total return swaps, in which the CSi group retains substantially all of the associated credit, market, interest rate and foreign exchange risks and rewards associated with the assets, represent the most common examples of such transactions. Where the transfer of an asset does not meet derecognition, it remains on the CSi groups balance sheet with a corresponding liability established to represent an obligation to the counterparty. As part of the CSi group's repurchase agreements and securities lending transactions, there is an obligation to return equivalent securities at the end of the transaction.

The following table provides details of financial assets which have been sold or otherwise transferred, but which do not qualify for derecognition, together with their associated liabilities.

[1] The derivative provides CSi group the right but not the obligation to repurchase the transferred asset at the CSi group's option.

Carrying amount of transferred assets not derecognised and associated liabilities

2012	Financial assets not derecognised due to the following transactions			
Group and Bank (USD million)	**Repurchase agreements**	**Securities lending agreements**	**Total return swaps**	**Other**
Carrying amount of transferred assets	13,958	2,733	1,681	519
Total carrying amount of associated liabilities	13,936	2,652	1,610	519

Where the CSi group sells the contractual rights to the cash flows of the securities included above, it does not have the ability to use the transferred assets during the term of the arrangement.

Carrying amount of transferred assets not derecognised and associated liabilities

2011	Financial assets not derecognised due to the following transactions			
Group and Bank (USD million)	**Repurchase agreements**	**Securities lending agreements**	**Total return swaps**	**Other**
Carrying amount of transferred assets	9,839	7,090	686	472
Total carrying amount of associated liabilities	9,853	7,090	686	472

Assets not derecognised are included in Note – 15 Trading Financial Assets and Liabilities at Fair Value Through Profit or Loss and Note – 17 Other Loans and Receivables. The corresponding liabilities are included in Note – 14 Securities Borrowed, Lent and Subject to Resale or Repurchase Agreements, Note – 16 Financial Assets and Liabilities Designated at Fair Value Through Profit or Loss and Note – 19 Other Assets and Liabilities.

39. Financial Instruments Risk Position

Risks Detail

i) Market risk

Overview

Market risk is the risk of loss arising from adverse changes in interest rates, foreign currency exchange rates, equity prices, commodity prices and other relevant parameters, such as market volatility. The Bank defines its market risk as potential changes in the fair values of financial instruments in response to market movements. A typical transaction may be exposed to a number of different market risks.

The Bank has policies and processes in place to ensure that market risk is captured, accurately modelled and reported, and effectively managed. Trading and non-trading portfolios are managed at various organisational levels, from the overall risk positions at the Bank level down to specific portfolios. The Bank uses market risk measurement and management methods in line with industry standards. These include general tools capable of calculating comparable exposures across the Bank's many activities and focused tools that can specifically model unique characteristics of certain instruments or portfolios. The tools are used for internal market risk management, internal market risk reporting and external disclosure purposes. The principal measurement methodologies are value-at-risk ('VaR') and scenario analysis. Additionally, the Bank's market risk exposures are reflected in the economic capital calculations. The risk management techniques and policies are regularly reviewed to ensure they remain appropriate.

Value-at-Risk

VaR measures the potential loss in terms of fair value of financial instruments due to adverse market movements over a defined time horizon at a specified confidence level. VaR as a concept is applicable for all financial risk types with valid regular price histories. Positions are aggregated by risk type rather than by product. For example, interest rate risk includes risk arising from money market and swap transactions, bonds, and interest rate, foreign exchange, equity and commodity options. The use of VaR allows the comparison of risk in different businesses, such as fixed income and equity, and also provides a means of aggregating and netting a variety of positions within a portfolio to reflect actual correlations and offsets between different assets.

Historical financial market rates, prices and volatility serve as a basis for the statistical VaR model underlying the potential loss estimation. The Bank uses a ten-day holding period and a confidence level of 99% to model the risk in its trading portfolios. These assumptions are compliant with the standards published by the Basel Committee on Banking Supervision ('BCBS') and other related international standards for market risk management. For some purposes, such as backtesting and benchmarking with competitors, the resulting VaR figures are scaled down or calculated to a one-day holding period level. A one-day holding period and a 99% confidence level mean that, within a one-day horizon, losses exceeding the VaR figure should occur, on average under normal market conditions, not more than once every hundred days.

The Bank uses a historical simulation model for the majority of risk types and businesses within its trading portfolios. Where insufficient data is available for such an approach, an 'extreme-move' methodology is used. The model is based on the profit or loss distribution resulting from historical changes in market rates, prices and volatility applied to evaluate the portfolio. This methodology also avoids any explicit assumptions on correlation between risk factors. The Bank uses a three-year historical dataset to compute VaR. To ensure that VaR responds appropriately in times of market stress, the Bank uses a scaling technique that automatically increases VaR where the short-term market volatility is higher than the long-term volatility in the three year dataset. This results in a more responsive VaR model, as the impact of changes in overall market volatility is reflected almost immediately in the VaR model.

The Bank has approval from the FSA to use its regulatory VaR model in the calculation of trading book market risk capital requirements, and the model is subject to regular reviews by the regulator.

The VaR model uses assumptions and estimates that the Bank believes are reasonable, but changes to assumptions or estimates could result in a different VaR measure. As a risk measure, VaR only quantifies the potential loss on a portfolio under normal market conditions. Other risk measures, such as scenario analysis, are used to estimate losses associated with unusually severe market movements. The main assumptions and limitations of VaR as a risk measure are:

- VaR relies on historical data to estimate future changes in market conditions, which may not capture all potential future outcomes, particularly where there are significant changes in market conditions, such as increases in volatilities.
- Although VaR captures the interrelationships between risk factors, these interrelationships may break down during stressed market conditions.
- VaR provides an estimate of losses at a 99% confidence level, which means that it does provide any information on the size of losses that could occur beyond that confidence threshold.
- VaR is based on either a ten-day (for internal risk management and regulatory purposes) or one-day (for backtesting purposes) holding period. This assumes that risks can be either sold or hedged over that period, which may not be possible for all types of exposure, particularly during periods of market illiquidity or turbulence.
- VaR is calculated using positions held at the end of each business day and does not include intra-day exposures.

Scenario analysis

Stress testing complements other risk measures by capturing the Bank's exposure to unlikely but plausible events, which can be expressed through a range of significant moves across multiple financial markets. The majority of scenario analysis calculations performed are specifically tailored toward the risk profile within particular businesses, and limits may be established if they are considered the most appropriate control. In addition, to identify areas of risk concentration and potential vulnerability to stress events at Bank level, a set of scenarios are used which are consistently applied across all businesses and assess the impact of significant, simultaneous movements across a broad range of markets and asset classes.

Stress testing is a fundamental element of the Bank's risk control framework, stress testing results are used in risk appetite discussions and strategic business planning, and support the Bank's internal capital adequacy assessment. Stress test scenarios are conducted on a regular basis and the results, trend information and supporting analysis are reported to the Board, senior management and the business lines.

The Bank's stress testing framework is governed through a dedicated steering committee that operates across CS group. Scenarios can be defined with reference to historic events or based on forward looking, hypothetical events that could impact the Bank's positions, capital, or profitability. The scenarios are reviewed and updated regularly as markets and business strategies evolve, and new scenarios are designed by the Risk division in collaboration with Global Research and the business divisions.

Trading portfolios

Risk measurement and management

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

For the purposes of this disclosure, VaR is used to quantify market risk in the trading portfolio, which includes those financial instruments treated as part of the trading book for the Bank's regulatory capital purposes. This classification of assets as trading is done for the purpose of analysing the Bank's market risk exposure, not for financial statement purposes.

CSi is active in most of the principal trading markets of the world, using the majority of common trading and hedging products, including derivatives such as swaps, futures, options and structured products (some of which are customised transactions using combinations of derivatives and executed to meet specific client or proprietary needs). As a result of CSi's broad participation in products and markets, trading strategies are correspondingly diverse and exposures are generally spread across a range of risk factors and locations.

Development of trading portfolio risks

The table below shows the trading related market risk exposure for the Bank, as measured by ten-day 99% VaR. The VaR in the table has been calculated using a three-year historical dataset. VaR estimates are computed separately for each risk type and for the whole portfolio using the historical simulation methodology. The diversification benefit reflects the net difference between the sum of the 99th percentile loss for each individual risk type and for the total portfolio. There is no material difference in VaR between the Bank and the CSi group.

Ten-day, 99% VaR – trading portfolios

End of period	Interest rate and credit spread	Foreign exchange	Commodity	Equity	Diversification benefit[1]	Total
2012 USD million						
Average	101	23	11	34	(77)	92
Minimum	75	5	2	19		46
Maximum	139	70	29	83		150
End of period	97	15	10	40	(93)	69
2011 USD million						
Average	232	52	38	59	-194	187
Minimum	135	17	9	16	[2]	102
Maximum	348	466	102	262	[2]	364
End of period	138	70	10	46	-115	149

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 CSi group's ten-day, 99% regulatory VaR as of 31 December 2012 decreased by 54% to USD 69 million, compared to 31 December 2011 (USD 149 million).

Banking portfolios

Risk measurement and management

The market risks associated with the non-trading portfolios are measured, monitored and limited using several tools, including EC, scenario analysis, sensitivity analysis and VaR. For the purpose of this disclosure, the aggregated market risks associated with the Bank's non-trading portfolios are measured using sensitivity analysis. The sensitivity analysis for the non-trading activities measures the amount of potential change in economic value resulting from specified hypothetical shocks to market factors. It is not a measure of the potential impact on reported earnings in the current period, since the non-trading activities generally are not marked to market through earnings. Foreign exchange translation risk is not included in this analysis.

Development of non-trading portfolio risks

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

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

Interest rate risk on banking book positions is shown below using sensitivity analysis that estimates the potential change in value resulting from defined changes in interest rate yield curves. The impact of a one-basis-point parallel move in yield curves on the fair value of interest rate-sensitive non-trading book positions would be USD 2 million as of 31 December 2012 compared to USD 3 million as of 31 December 2011. Non-trading interest rate risk is assessed using other measures including the potential value change resulting from a significant change in yield curves. As of 31 December 2012, the fair value impacts of 200-basis-point move in yield curves (flooring at zero where appropriate) were:

+200bps increase of USD 549 million (2011: increase of USD 443 million)

-200bps decrease of USD 14 million (2011: decrease of USD 335 million)

The fair value impact of a statistical one-year adverse interest rate move (to 99% confidence level) was a decrease of USD 164 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.

Equity risk on non-trading positions is measured using sensitivity analysis that estimates the potential change in value resulting from a 10% decline in the equity markets of developed nations and a 20% decline in the equity markets of emerging market nations. The estimated impact of this scenario would have been a decrease of approximately USD 15 million in the value of the non-trading portfolio as of 31 December 2012 and USD 12 million as of 31 December 2011.

Commodity risk on non-trading positions is measured using sensitivity analysis that estimates the potential change in value resulting from a 20% weakening in commodity prices. The estimated impact of this scenario would have been a decrease of approximately USD Nil in the value of the non-trading portfolio as of 31 December 2012 compared to USD 4 million as of 31 December 2011.

ii) Liquidity Risk

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

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

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

CS group-wide management of liquidity risk

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

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

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

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

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

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

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

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

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

Legal entity management of liquidity risk

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

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

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

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

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

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

Treasury is responsible for maintaining a CFP that details specific dealing strategies, actions and responsibilities required depending upon severity of the crisis. Treasury supports the plan with key liquidity tools, including early warning indicators. The CFP gives consideration to the impact of operational constraints in terms of time and ability to monetise assets, trapped liquidity, daylight collateral requirements and communicated strategies.

Incremental to CSi's unsecured funding sources from CS, CSi has the ability to access secured funding markets via repurchase agreements and a structured notes issuance programme. These funding streams provide diversification to the funding profile of the entity.

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

Group 31 December 2012	On Demand	Due within 3 months	Due between 3 and 12 months	Due between 1 and 5 years	Due after 5 years	Total
Financial liabilities (USD million)						
Deposits	1	604	2,263	671	1,305	4,844
Securities sold under repurchase agreements and securities lending transactions	1,176	1,007	2,691	-	-	4,874
Trading financial liabilities at fair value through profit or loss	525,737	-	-	-	-	525,737
Financial liabilities designated at fair value through profit or loss	-	9,655	6,356	14,444	6,189	36,644
Short term borrowings	-	112	29,606	-	-	29,718
Long term debt	-	8,289	4,481	13,389	4,767	30,926
Perpetual debt	-	-	-	-	1,525	1,525
Other liabilities	44,707	33	-	226	-	44,966
Total	**571,621**	**19,700**	**45,397**	**28,730**	**13,786**	**679,234**

Group 31 December 2011	On Demand	Due within 3 months	Due between 3 and 12 months	Due between 1 and 5 years	Due after 5 years	Total
Financial liabilities (USD million)						
Deposits	2,440	891	118	11	991	4,451
Securities sold under repurchase agreements and securities lending transactions	309	432	6,230	-	-	6,971
Trading financial liabilities at fair value through profit or loss	551,224	-	-	-	-	551,224
Financial liabilities designated at fair value through profit or loss	734	7,019	3,875	11,877	7,847	31,352
Short term borrowings	-	151	32,591	-	-	32,742
Long term debt	-	5,089	579	20,545	6,754	32,967
Perpetual debt	-	-	-	-	1,525	1,525
Other liabilities	42,572	67	3	167	26	42,835
Total	**597,279**	**13,649**	**43,396**	**32,600**	**17,143**	**704,067**

Liabilities in trading portfolios have not been analysed by contractual maturity because these liabilities are used to risk manage positions held across CS group and can be closed out at very short notice. Trading liabilities have been classified as being 'on demand' at their fair value.

For instruments with perpetual features (no maturity dates) the projected coupons have been excluded. Callable deposits, open ended positions and overnight funding will be recorded at their present value in an 'on demand' categorisation. This classification will be based on the underlying legal and contractual ability of the counterparty or CSi to put or call the positions at short notice.

iii) Wrong-way Risk

Wrong-way exposures

Correlation risk arises when CSi enters into a financial transaction where market rates are correlated to the financial health of the counterparty. In a wrong-way trading situation, CSi's exposure to the counterparty increases while the counterparty's financial health and its ability to pay on the transaction diminishes. Capturing wrong-way risk requires the establishment of basic assumptions regarding correlations within a given trading product. CSi has multiple processes that allow the capture and estimate of wrong-way risk.

Credit approval and reviews

A primary responsibility of Credit Risk Management (CRM) is the approval of new counterparty trading relationships and the subsequent ongoing review of the creditworthiness of the client. Part of the review and approval process involves the consideration of the motivation of the client and the directional nature of the trading in which the client is engaged. Credit limits are sized to the level of comfort the CRM officer has with the strategy of the counterparty, the level of disclosure of financial information and the amount of risk mitigation that is present in the trading relationship (e.g. level of collateral).

Exposure adjusted risk calculation

Material trades that feature high correlation risk have higher risk weighting built into the exposure calculation process compared to 'rightway' trades.

- Purchased credit default swaps – Correlation exists where the counterparty and the underlying reference asset belong to the same group. In these cases, exposure is calculated assuming default and applying the recovery value of the underlying reference asset.
- Equity finance – If there is a high correlation between the counterparty and the underlying equity exposure is calculated as full notional (i.e. zero equity recovery).
- Reverse repurchase agreements – Correlation exists where the underlying issuer and the counterparty are affiliated. In these cases, collateral used as an offset in the exposure calculation process is lowered to its recovery value.

Wrong-way risk monitoring

Regular reporting of wrong-way risk at both the individual trade and portfolio level allows wrong-way risk to be monitored and corrective action taken by CRM in the case of heightened concern.

- Country exposure reporting – Exposure is reported against country limits established for emerging market countries. As part of the exposure reporting process, exposures that exhibit wrong-way characteristics are given a higher riskweighting versus non-correlated transactions. This weighting results in a greater amount of country limit usage for wrong-way transactions.
- Counterparty exposure reporting – Transactions that contain wrong-way risk (e.g. repurchase agreements, equity finance) are risk weighted as part of the daily exposure calculation process. Correlated transactions utilise more of the credit limit.
- Correlated repurchase and foreign exchange reports – Monthly reports produced by CRM capture correlated finance and foreign exchange positions for information and review by credit officers.
- Scenario risk reporting – In order to capture wrong-way risk at the industry level, a set of defined scenarios are run on the credit portfolio each month. The scenarios are determined by CRM and

involve stressing the underlying risk drivers to determine where portfolios are sensitive to these stressed parameters.

- Scenario risk reporting also covers client groups, particularly hedge funds, which are exposed to particular risk sensitivities and also may have collateral concentrations due to the direction and strategy of the fund.

iv) Currency Risk

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

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

v) Credit Risk

Credit Risk Management is an independent function headed by the Chief Credit Officer with responsibility for approving credit limits, monitoring and managing individual exposures and assessing and managing the quality of the segment and business area's credit portfolios and allowances. CRM reports to the Chief Risk Officer of CS group.

Definition of counterparty risk

Credit risk is the possibility of a loss being incurred by us as the result of a borrower or counterparty failing to meet its financial obligations or as a result of deterioration in the credit quality of the borrower or counterparty. In the event of a customer default a bank generally incurs a loss equal to the amount owed by the debtor, less any recoveries from foreclosure, liquidation of collateral or the restructuring of the debtor company. A change in the credit quality of counterparty has an impact on the valuation of assets eligible for fair value measurement, with valuation changes recorded in the Consolidated Statement of Income.

Credit risk management approach

Effective credit risk management is a structured process to assess, quantify, measure, monitor and manage risk on a consistent basis. This requires careful consideration of proposed extensions of credit, the setting of specific limits, monitoring during the life of the exposure, active use of credit mitigation tools and a disciplined approach to recognising credit impairment.

The credit risk management framework covers all banking business areas that are exposed to credit risk. The framework is designed to cover virtually all of the credit exposures in the banking business and comprises seven core components:

- Individual counterparty rating systems;
- Transaction rating systems;
- A counterparty credit limit system;
- Country concentration limits;
- Risk-based pricing methodologies;
- Active credit portfolio management; and
- A credit risk provisioning methodology.

Credit limits are used to manage individual counterparty credit risk. A system of limits is also established to address concentration risk in the portfolio, including a set of country limits and limits for certain products. In addition, credit risk concentration is regularly supervised by credit and risk management committees, taking current market conditions and trend analysis into consideration. A credit quality review process provides an early identification of possible changes in the creditworthiness of clients and includes regular asset and collateral quality reviews, business and financial statement analysis and relevant economic and industry studies. Regularly updated watch lists and review meetings are used for the identification of counterparties where adverse changes in creditworthiness could occur.

Counterparty and transaction rating

The CSi group employs a set of credit ratings for the purpose of internally rating counterparties to whom the CSi group are exposed to credit risk as the contractual party. Credit ratings are intended to reflect the risk of default of each counterparty. Ratings are assigned based on internally developed rating models and processes, which are subject to governance and internally independent validation procedures.

The CSi group's internal ratings may differ from counterparty's external ratings where present. Policy requires the review of internal ratings at least annually. For the calculation of internal risk estimates and RWAs, a probability of default ('PD') is assigned to each facility, with the PD determined by the internal credit rating. Internal ratings are based on the analysis and evaluation of both quantitative and qualitative factors. The specific factors analysed are dependent on the type of counterparty. The analysis emphasises a forward looking approach, concentrating on economic trends and financial fundamentals. Analysts make use of peer analysis, industry comparisons, external ratings and research, other quantitative tools and the judgment of credit experts. The PD for each rating is calibrated based on historic default experience, using external data from Standard & Poor's, and backtested to ensure consistency with internal experience.

The CSi group assigns an estimate of expected loss in the event of a counterparty default based on the structure of each transaction. The counterparty credit rating is used in combination with credit (or credit equivalent) exposure and the loss given default ('LGD') assumption to estimate the potential credit loss. LGD represents the expected loss on a transaction should default occur and takes into account structure, collateral, seniority of the claim and, in certain areas, the type of counterparty. CSi group uses credit risk estimates consistently for the purposes of approval, establishment and monitoring of credit limits and credit portfolio management, credit policy, management reporting, risk-adjusted performance measurement, economic capital measurement and allocation and certain financial accounting purposes. This approach also allows us to price transactions involving credit risk more accurately, based on risk/return estimates. The overall internal credit rating system has been approved by Swiss Financial Market Supervisory Authority (FINMA) for application under the Basel II A-Internal Rating Based ('IRB') approach.

Credit risk overview

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

Collateral held as security

CSi group actively manages its credit exposure utilising credit hedges, collateral and guarantees. Collateral is security in the form of an asset, such as cash and marketable securities that serves to mitigate the inherent risk of credit loss and to improve recoveries in the event of a default.

The policies and processes for collateral valuation and management are driven by:

- legal documentation that is agreed with CSi's counterparties; and
- an internally independent collateral management function.

The valuation of the collateral portfolio is performed daily as per the availability of independent market data, for traded products. Exceptions are governed by the calculation frequency described in the legal documentation. The management of collateral is standardised and centralised to ensure complete coverage of traded products.

Primary types of collateral

Collateral securing foreign exchange transactions and OTC trading activities includes:

- Cash and US Treasury instruments;
- G -10 government securities; and
- Gold or other precious metals.

Collateral securing loan transactions includes:

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

For further information on collateral refer to Note 37 – Assets Pledged or Assigned.

Maximum exposure to credit risk

The following table presents the maximum exposure to credit risk of balance sheet and off-balance sheet financial instruments, before taking account of the fair value of any collateral held or other credit enhancements unless such credit enhancements meet offsetting requirements as set out in IAS 32. For financial assets recognised on the balance sheet the exposure to credit risk equals their carrying amount as at 31 December 2012. For financial guarantees granted and other credit-related contingencies the maximum exposure to credit risk is the maximum amount that Credit Suisse would have to pay if the guarantees and contingencies are called upon. For loan commitments and other credit-related commitments that are irrevocable over the life of the respective facilities the maximum exposure to credit risk is the full amount of the committed facilities.

Maximum exposure to credit risk

2012	Group			Bank		
	Gross	Collateral	Net	Gross	Collateral	Net
Maximum exposure to credit risk (USD million)						
Cash and due from banks	18,690	-	18,690	18,553	-	18,553
Interest bearing deposits with banks	2,525	-	2,525	2,525	-	2,525
Securities purchased under resale agreements and securities borrowing transactions	24,103	24,103	-	24,103	24,103	-
Trading financial assets at fair value through profit or loss						
■ Debt securities	34,896	-	34,896	34,796	-	34,796
■ Derivative trading positions	506,232	478,083	28,149	506,587	478,083	28,504
■ Other	1,648	-	1,648	2,203	-	2,203
Financial assets designated at fair value through profit or loss						
■ Debt securities	80	-	80	80	-	80
■ Loans	10,447	4,214	6,233	10,447	4,214	6,233
■ Reverse repurchase agreements	5,283	5,283	-	5,283	5,283	-
■ Other	4,318	3,732	586	4,318	3,732	586
Other loans and receivables	13,509	12,350	1,159	13,513	12,350	1,163
Other assets	53,942	-	53,942	54,249	-	54,249
Maximum exposure to credit risk – total assets	**675,673**	**527,765**	**147,908**	**676,657**	**527,765**	**148,892**
Off-balance sheet items						
■ financial guarantees	958	19	939	958	19	939
■ loan commitments and other credit related commitments	11,932	52	11,880	11,932	52	11,880
Maximum exposure to credit risk – total off-balance sheet	**12,890**	**71**	**12,819**	**12,890**	**71**	**12,819**
Maximum exposure to credit risk	**688,563**	**527,836**	**160,727**	**689,547**	**527,836**	**161,711**

2011	Group			Bank		
	Gross	Collateral	Net	Gross	Collateral	Net
Maximum exposure to credit risk (USD million)						
Cash and due from banks	14,795	-	14,795	14,750	-	14,750
Interest bearing deposits with banks	1,496	-	1,496	1,496	-	1,496
Securities purchased under resale agreements and Securities borrowing transactions	29,406	29,406	-	29,406	29,406	-
Trading financial assets at fair value through profit or loss						
■ Debt securities	28,751	-	28,751	28,744	-	28,744
■ Derivative trading positions	529,346	488,817	40,529	530,064	488,817	41,247
■ Other	1,990	58	1,932	2,553	58	2,495
Financial assets designated at fair value through profit or loss						
■ Debt securities	98	-	98	98	-	98
■ Loans	11,550	2,262	9,288	11,550	2,262	9,288
■ Reverse repurchase agreements	6,290	6,290	-	6,290	6,192	98
■ Other	763	-	763	763	-	763
Other loans and receivables	14,402	12,827	1,575	14,409	12,827	1,582
Other assets	55,698	1,045	54,653	56,020	1,045	54,975
Maximum exposure to credit risk – total assets	**694,585**	**540,705**	**153,880**	**696,143**	**540,607**	**155,536**
Off-balance sheet items						
■ financial guarantees	2,973	175	2,798	2,973	175	2,798
■ loan commitments and other credit related commitments	10,079	307	9,772	10,079	307	9,772
Maximum exposure to credit risk – total off-balance sheet	**13,052**	**482**	**12,570**	**13,052**	**482**	**12,570**
Maximum exposure to credit risk	**707,637**	**541,187**	**166,450**	**709,195**	**541,089**	**168,106**

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

The CSi group typically enters into master netting arrangements (MNA's) with over the counter (OTC) derivative counterparties. The MNA's allow the CSi group to offset derivative liabilities against the derivative assets with the same counterparty in the event the counterparty defaults. Collateral on these derivative contracts is usually posted on a net counterparty basis and comprises either cash or marketable securities or a combination thereof. To the extent an exchange or clearing house acts as a counterparty to a derivative transaction, credit risk is generally considered to be limited as the CSi group is required to maintain a margin. Included in the table above as collateral and other credit enhancements are the derivative liability amounts which would be offset against the derivative asset position upon default of the counterparty as well as any cash or marketable securities collateral held. Amounts disclosed as collateral and credit enhancements are where a counterparty has an offsetting derivative exposure with the CSi group, a MNA exists, and the credit risk exposure is managed on a net basis or the position is specifically collateralised, typically in the form of cash.

Also included in the table within both loans and receivables and financial assets designated at fair value through profit and loss is collateral which the CSi group holds against loans in the form of guarantees, cash and marketable securities. The CSi group also mitigates its credit exposures on certain loans primarily with credit default swaps, which economically hedge the position and as such the notional on the relevant credit default swap has been included. For further information on the collateral and credit enhancements held against loans designated at fair value, refer to Note 16 – Financial Assets and Liabilities Designated at Fair Value through Profit and Loss.

Reverse repurchase agreements and securities borrowings are typically fully collateralised instruments and in the event of default, the agreement provides the CSi group the right to liquidate the collateral held. Reverse repos are included either within securities or financial assets designated at fair value through profit and loss, based on the accounting methodology. These instruments are collateralised principally by government securities, money market instruments, corporate bonds and cash. The CSi group monitors the fair value of securities borrowed and loaned on a daily basis with additional collateral obtained as necessary. The fair value of the collateral has been included in the table above. For further information on the collateral and credit enhancements held against reverse repurchase agreements and securities borrowing refer to Note 14 – Securities Borrowed, Lent and Subject to Resale or Repurchase Agreements.

Included within other (Financial assets designated at fair value through profit or loss) are failed purchases that arise when a transaction to purchase an asset has not met the conditions for sale accounting. The CSi group typically holds collateral in the form of insurance or securities against the failed purchases.

Collateral held against financial guarantees and loan commitments typically includes securities and letters of credit. For further information about the collateral and credit enhancements held against financial guarantees and loan commitments refer to Note 34 – Guarantees and Commitments.

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

If collateral or the credit enhancement value for a particular instrument is in excess of the maximum exposure then the value of collateral and other credit enhancements included in the table has been limited to the maximum exposure to credit risk.

Risk mitigation

CSi actively manages its credit exposure utilising credit hedges and monetiseable collateral (cash and marketable securities). Credit hedges represent the notional exposure that has been transferred to other market counterparties generally through the use of credit default swaps. CSi also actively enters into collateral arrangements for OTC derivatives and other traded products which allow it to limit the counterparty exposure risk associated with these products. Collateral taken generally represents cash or government securities although other securities may be accepted. The value of collateral reflected as a risk mitigant is net of an appropriate haircut.

Counterparty exposure before collateral by rating

Bank	31 December 2012		31 December 2011	
	USD million	**%**	**USD million**	**%**
AAA	3,315	4	7,048	8
AA+ to AA-	17,445	21	19,665	21
A+ to A-	33,067	39	32,920	36
BBB+ to BBB-	15,062	18	16,536	18
BB+ to BB-	8,117	9	8,518	9
B+ and below	7,350	9	7,684	8
	84,356	**100**	**92,371**	**100**

Unsecured exposure by rating (including provisions)

Bank	31 December 2012		31 December 2011	
	USD million	**%**	**USD million**	**%**
AAA	3,958	13	6,521	19
AA+ to AA-	7,834	25	8,203	23
A+ to A-	9,606	31	9,641	27
BBB+ to BBB-	4,503	14	5,139	15
BB+ to BB-	1,886	6	1,733	5
B+ and below	3,413	11	3,788	11
	31,200	**100**	**35,025**	**100**

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

The first table represents mark to market exposures before offsetting any eligible collateral held; the second table represents mark to market exposures after offsetting collateral.

vi) Country Risk

Country risk is the risk of a substantial, systemic loss of value in the financial assets of a country or group of countries, which may be caused by dislocations in the credit, equity and/or currency markets. CS group's major operating divisions all assume country risk in a variety of ways. The setting of limits for this risk is the responsibility of CARMC, based on the recommendations of CRM, SRM and CS group's economists.

Country limits for emerging markets are approved annually by the Board of Directors of CSG, following recommendations from CARMC. The measurement of exposures against country limits is undertaken by RAR with bi-monthly reports to senior management and monthly reports to CARMC. For trading positions, country risk is a function of the mark-to-market exposure and currency of the position, while for loans and related facilities country risk is a function of the amount and currency that CS group has lent or committed to lend. The day-to-day management of country exposure is assigned to each of the core businesses in accordance with its business authorisations and limit allocations. RAR and CRM provide independent oversight to ensure that the core businesses operate within their limits. CRM is responsible for periodically adjusting these limits to reflect changing credit fundamentals and business volumes.

vii) Settlement Risk

Settlement risk arises whenever the settlement of a transaction results in timing differences between the disbursement of cash or securities and the receipt of countervalue from the counterparty. This risk arises whenever transactions settle on a 'free of payment' basis and is especially relevant when operating across time zones.

In those instances where market convention and/or products preclude a value-for-value exchange, the CSi group manages its risk through confirmation and affirmation of transaction details with counterparties. In order to reduce gross settlement risk the CSi group leverages Clearing Houses, Central Counterparties and Central Settlement services and will also net gross cashflows with a given counterpart where possible. It proactively seeks to manage the timing of settlement instructions to its agents and the reconciliation of incoming payments in order to reduce the window of exposure. In addition, CRM establishes and monitors limits to control the amount of settlement risk incurred to each counterparty.

viii) Legal Risk

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

The CS group is subject to extensive regulation in the conduct of its investment business. A failure to comply with applicable regulations could result in regulatory investigations, fines and restrictions on some of the CS group's business activities or other sanctions. The CS group seeks to minimise legal risk through the adoption of compliance and other policies and procedures, continuing to refine controls over business practices and behaviour, employee training sessions, the use of appropriate legal documentation, and the involvement of the Legal and Compliance department and outside legal counsel. In addition, the CS group is an active participant in ISDA and other professional derivative market forums, with specific focus on improving levels of derivative market and product standardisation, legal definition and protocol.

ix) Operational risk

Operational risk is the risk of loss resulting from inadequate or failed internal processes, people or systems or from external events. CS group's primary aim is the early identification, recording, assessment, monitoring, prevention and mitigation of operational risks, as well as timely and meaningful management reporting. Where appropriate, CS group transfers operational risks to third-party insurance companies.

Operational risk is inherent in most aspects of CS group's activities and is comprised of a large number of disparate risks. While market and credit risk are often chosen for the prospect of gain, operational risk is normally accepted as a necessary consequence of doing business. In comparison to market or credit risk, the sources of operational risk are difficult to identify comprehensively and the amount of risk is also inherently difficult to measure. CS group believes that effective management of operational risk requires a common firm-wide framework with ownership of these risks residing with the management responsible for the relevant business process.

Operational risk management

The central BORO team within the risk management function is responsible for the overall operational risk management framework design and methodology. It ensures cohesiveness of policies, tools and practices throughout the firm for operational risk management specifically with regard to identification, evaluation, mitigation, monitoring and reporting of relevant operational risks.

Each individual business area takes responsibility for its operational risks and the provision of adequate resources and procedures for the management of those risks. Businesses are supported by designated operational risk teams at the divisional and CS group level who are responsible for the implementation of the operational risk management framework, methodologies, tools and reporting within their areas as well as working with management on any operational risk issues that arise.

Operational risk issues, metrics and exposures are discussed at the Bank's Risk management committees, which has senior staff representatives from all the relevant functions. The Bank utilises a number of CS group-wide tools for the management and reporting of operational risk. These include risk and control self-assessments, scenario analysis, key risk indicator reporting and the collection, reporting and analysis of internal and external loss data. Knowledge and experience are shared throughout the CS group to maintain a coordinated approach. CS group is continuously improving operational risk management practices and, in 2012, operational risk appetite was added as a new element of the Bank's overall risk appetite framework. The framework is based on quantitative and qualitative tolerance levels. Tolerance levels are monitored and reported to the Banks's Risk management committees which monitors management adherence and oversee remediation and resolution of breaches.

x) Reputational Risk

It is CS group's policy to avoid any action, transaction or relationship with a Politically Exposed Person which poses an unacceptable level of risk to the CS group's reputation. Reputational risk may arise from a variety of sources, including, but not limited to, the nature or purpose of a proposed transaction, the identity or nature of a potential client, the regulatory or political climate in which the business will be transacted or significant public attention surrounding the transaction itself. The CSi Board has formally delegated Reputational Risk issues to CS group's global Reputational Risk Review Process ('RRRP') and where an action or transaction gives rise to potential reputational risk for CS group, the relevant business proposal is required to be submitted to the RRRP. The RRRP involves a vetting of the proposal by senior business management, and its subsequent referral to one of CS group's Reputational Risk Approvers, each of whom is independent of the business divisions and has the authority to approve, reject, or impose conditions on CS group's participation. Reputational Risk statistics, trends and notable submissions are reported to the CSi Board on a quarterly basis.

40. Business Combination

On 30 April 2011, CSG completed the acquisition of the PFS business carried on by ABN AMRO Bank N.V. ('ABN') as successor to Fortis Bank (Nederland) N.V. ('Fortis'). As part of that acquisition, CSi Dublin Branch acquired certain assets and assumed certain liabilities of ABN AMRO Bank (Ireland) Ltd and ABN AMRO Administration Services (Ireland) Ltd in an asset purchase transaction. CSi Dublin Branch also acquired 100% of the shares of Prime Nominees (Ireland) Ltd and Prime Nominees (Asia) Ltd in a stock purchase transaction.

	2011
Consideration (USD million)	
Cash	**14**
Recognised amounts of identifiable assets acquired and liabilities assumed (USD million)	
■ Cash and due from banks	2,574
■ Trading financial assets at fair value through profit and loss	156
■ Other loans and advances	394
■ Other assets	3
■ Intangible assets (including customer list)	7
■ Property and equipment	10
■ Deposits	(2,970)
■ Trading financial liabilities at fair value through profit or loss	(154)
■ Other liabilities	(2)
Net assets acquired and liabilities assumed	**18**
Gain arising on acquisition	**4**

The acquisition enhanced CSi group's offering to the alternative investment community through PFS's leading services, which include independent administrative services, investor services, net asset value calculation, banking, custody and financing solutions. PFS is a strong fit with CSi group's client-focused, capital-efficient strategy and further strengthened CSi group's Equities franchise by creating a more complete solution for hedge fund clients.

An intangible asset arose on acquisition relating to the customer list obtained through the transaction. This asset of USD 5 million has been recorded by CSi Dublin Branch and will be amortised over a 13 year period on a straight-line basis.

The transaction included provision for certain contingent consideration however, in the event that this should become payable, it is not material to CSi group.

Revenues and profit in 2012 were not material to the CSi group.

41. Capital Adequacy

CSi's capital adequacy and capital resources are managed and monitored based on practices developed by the Basel Committee on Banking Supervision (the 'Basel Committee') and governed by European Union directives. These directives are implemented in the UK by the FSA, the UK regulator, and incorporated within its prudential sourcebooks for banks and investment firms.

Capital Resources

Regulatory capital resources comprise a number of 'tiers'. Tier 1 capital principally comprises shareholders' equity. This is supplemented by Tier 2 and Tier 3 capital, which consist mainly of subordinated debt instruments. Total capital equals the sum of these, less regulatory deductions for items specified by the regulators, including material holdings of capital instruments issued by banks and investment firms, along with prudential filters, which are adjustments to accounting values for regulatory purposes.

CSi's overall capital needs are reviewed to ensure that its capital base can appropriately support the anticipated needs of its businesses. The capital management framework at CSG is designed to ensure that capital resources are sufficient to support the underlying risks of the business activity, to meet the objectives of management and to meet the requirements of regulators, rating agencies and market participants.

In addition to the capital restructuring in February 2012, CSi also received a capital injection of USD 2 billion during the course of 2012 in order to support the business. There was also a Tier 1 injection of USD 202 million to replace Tier 2 subordinated debt that was repaid. There were no capital injections in 2011. Other movements in capital resources were as follows:

	2012	2011
Regulatory capital less deductions (USD million)		
Total regulatory capital less deductions at 1 January	**20,471**	**19,334**
Changes in Tier 1 instruments:		
■ Capital Injections	2,000	-
■ Increase on reorganisation of capital base	3,165	-
Changes in Tier 2 instruments:		
■ Decrease on reorganisation of capital base	(3,155)	-
Profit and loss and movements in other comprehensive income (including solo-consolidated entities)	(665)	(294)
Net movement on Tier 2 capital (amortisation and currency translation)	10	(21)
Net movement in regulatory deductions and prudential filters	216	1,452
Total regulatory capital less deductions at 31 December	**22,042**	**20,471**

Under the Basel Committee guidelines, an institution must have a ratio of total eligible capital to aggregate risk-weighted assets of at least 8% although the FSA requires this ratio to exceed the Individual Capital Guidance ('ICG') determined for each institution. This ratio can also be expressed as a capital coverage ratio, being the ratio of total eligible capital to total capital resources requirements, which must be at least 100%. The capital resources requirements reflect the credit, market and other risks of the Bank calculated using methodologies set out by the FSA.

CSi must at all times monitor and demonstrate the compliance with the relevant regulatory capital requirements of the FSA. CSi has put in place processes and controls to monitor and manage its capital adequacy and no breaches were reported to the FSA during the year.

The following table sets out details of CSi's regulatory capital resources at 31 December 2012 and 2011.

	2012	2011
Regulatory capital less deductions (USD millions)		
Total shareholders' equity-Bank	**15,577**	**11,102**
Reconciliation to Tier 1 capital:		
■ Regulatory deductions	(465)	(407)
■ Prudential filters	(63)	(157)
■ Reserves of solo-consolidated entities	22	(3)
Tier 1 capital less deductions	**15,071**	**10,535**
Tier 2 capital:		
■ Upper Tier 2- Perpetual Subordinated Debt	2,507	4,188
■ Lower Tier 2 – Term Subordinated Debt	4,499	5,962
Excess Tier 2 capital	0	(694)
Tier 2 capital	**7,006**	**9,456**
Tier 1 plus Tier 2 capital	**22,077**	**19,991**
Deductions		
■ Securitisation positions	0	(24)
■ Expected loss amounts	0	-
■ Other investments deducted from capital	(35)	(190)
Tier 1 plus Tier 2 capital, less deductions	**22,042**	**19,777**
Excess Tier 2 capital	0	694
Deductions from total capital	0	-
Total regulatory capital less deductions	**22,042**	**20,471**

In December 2010, the Basel Committee on Banking Supervision issued the Basel III framework with higher minimum capital requirements, and new conservation and countercyclical buffers, revised risk-based capital measures, a leverage ratio and liquidity standards. This was designed to strengthen the resilience of the banking sector. There have been some subsequent refinements to this framework. The new capital standards and capital buffers will require banks to hold more capital, mainly in the form of common equity. Basel III will be implemented in the EU by amendment to the Capital Requirements Directive (CRD) and will apply to both banks and investment firms. This takes the form of a regulation and a directive which are currently going through the EU legislative process.

42. FSA Pillar 3 disclosures

Under a waiver agreed with the FSA, certain of the Pillar 3 disclosures required by the UK implementation of Basel II need not be made by CSi as a stand-alone entity on the basis that they are included in the comparable disclosures provided on a consolidated basis by CS group. Those Pillar 3 disclosures required under FSA rules that are not covered by the CS group disclosures can be found separately at www.credit-suisse.com.

43. Subsequent Events

In the UK budget announcement of 20 March 2013, the UK government announced its intention to further reduce the UK corporation tax rate to 20% with effect from 1 April 2015. This tax rate reduction is expected to be substantively enacted in 2014. The effect of this tax rate reduction upon CSi group's deferred tax balance cannot be reliably quantified at this stage.

Also in the UK budget announcement of 20 March 2013, the UK Bank Levy rate from 1 January 2014 will be 14.2 basis points for short term liabilities and 7.1 basis points for long term liabilities.

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1419359 02.2013