

**Credit Suisse Securities (Europe) Limited**  
Annual Report 2009



# CREDIT SUISSE SECURITIES (EUROPE) LIMITED

## **BOARD OF DIRECTORS**

Eric Varvel (Chairman and CEO)

Costas P Michaelides

Eraj Shirvani

Stephen B Dainton

Luigi de Vecchi

Renato Fassbind (Non Executive)

Tobias Guldemann (Non Executive)

## **COMPANY SECRETARY**

Paul E Hare

# CREDIT SUISSE SECURITIES (EUROPE) LIMITED

## DIRECTORS' REPORT FOR THE YEAR ENDED 31 DECEMBER 2009

The directors present their Report and the Financial Statements for the year ended 31 December 2009.

### **International Financial Reporting Standards**

Credit Suisse Securities (Europe) Limited's 2009 financial statements have been prepared in accordance with International Financial Reporting Standards ('IFRS') as adopted for use in the European Union ('EU'). The Financial Statements were authorised for issue by the Directors on 21 April 2010.

### **BUSINESS REVIEW**

#### ***Profile***

Credit Suisse Group ('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, Private Banking and Asset Management.

As a leading financial services provider, CS group is committed to delivering its combined financial experience and expertise to corporate, institutional and government clients and high-net-worth individuals worldwide, as well as to retail clients in Switzerland. CS group serves its diverse clients through three divisions, Investment Banking, Private Banking and Asset 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 47,600 employees from approximately 100 different nations.

CSG prepares financial statements under US Generally Accepted Accounting Principles ('US GAAP'). These accounts are publicly available and can be found at [www.credit-suisse.com](http://www.credit-suisse.com).

Credit Suisse Securities (Europe) Limited (the 'Company') is a wholly owned subsidiary of Credit Suisse Investment Holdings (UK) (the 'Parent') and indirect wholly owned subsidiary of CSG. It is regulated in the United Kingdom by the Financial Services Authority ('FSA') and is a listed money market institution under the Financial Services and Markets Act, 2000. Its principal activities are the arranging of finance for clients in the international capital markets, the provision of financial advisory services and acting as dealer in securities, derivatives and foreign exchange on a principal and agency basis.

The Company has branch operations in Frankfurt, Paris, Amsterdam, Milan and Seoul. The Frankfurt, Paris, Amsterdam and Milan branches provide equity broking and investment banking services. In addition to providing these activities, the Seoul branch has received approval from South Korea's Financial Supervisory Commission to engage in over-the-counter (OTC) derivatives business and is a member of the Korean Securities Dealers Association. The Company also maintains representative offices in Turkey, Ukraine and South Africa.

The Credit Suisse Securities (Europe) Limited Group (the 'Group') consists of the Company, its consolidated subsidiaries and special purpose entities ('SPEs').

#### ***Principal product areas***

The Group acts primarily in the following three business lines which are components of the global Investment Banking division.

The Fixed Income business provides a range of derivative products including forward rate agreements, interest rate and currency swaps, interest rate options, bond options, insurance, commodities and credit derivatives for the financing, risk management and investment needs of its customers. Fixed Income 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, life finance transactions, foreign exchange and real estate related assets.

The Equity business engages in a broad range of equity activities for investors including sales, trading, brokerage and market making in international equity and equity related securities, futures and both OTC and exchange traded options. Additionally the Prime Services business provides brokerage services to hedge funds.

# CREDIT SUISSE SECURITIES (EUROPE) LIMITED

## DIRECTORS' REPORT FOR THE YEAR ENDED 31 DECEMBER 2009

The Investment Banking business activities include financial advisory services regarding mergers and acquisitions and other matters, origination and distribution of equity and fixed income securities, leveraged finance and private equity investments and, in conjunction with the Equity and Fixed Income businesses, Investment Banking provides capital raising services.

### ***Economic environment***

At the beginning of 2009, global industrial production and trade contracted at a rapid pace. Central banks across the globe cut rates sharply, some close to zero. The European Central Bank ('ECB') joined the Bank of England ('BoE') and the US Federal Reserve ('Fed') in introducing programmes to purchase securities to support prices and financial institutions. However, global economic key indicators improved significantly in the second half of the year. While improvement was initially seen only in some emerging markets, especially China, other developed economies began to show a meaningful recovery from depressed levels.

Inflation fell sharply until the middle of the year and became negative in some developed countries, reflecting the sharp drop in energy prices compared to the middle of 2008, but rebounded towards year end. Divergence in economic performance was increasingly reflected in differing monetary policy responses, as central banks in Norway and Australia, commodity-driven economies that had only experienced rather mild recessions, began to raise interest rates. At the same time, central banks in some emerging markets, which had to maintain high interest rates or even raise them during the crisis in order to prevent a sharp depreciation of their currencies continued to lower benchmark rates.

Government bond yields, which had fallen to multi-decade lows at the beginning of the year, rose sharply for longer tenors until mid-year when markets began to reflect higher interest rate and inflation expectations, which had fallen to extreme lows. Concerns about high government debt levels increased. Various governments' credit ratings were downgraded, and the yield differential between German and other euro area government bonds widened sharply, reaching a peak in the first quarter. These concerns reappeared towards the end of the year when a government-owned investment company in Dubai, asked creditors for a standstill agreement to extend the maturities of all debt repayments until May 2010, and the Greek sovereign rating was downgraded twice within a two month period.

The US dollar continued to appreciate from 2008 into early 2009 as deleveraging in financial markets continued. Financial market conditions began to normalise and volatility peaked in the second quarter of 2009. Amid signs that expansionary monetary and fiscal policy could support future growth, risk appetite in currency markets increased. The US dollar depreciated due to the very low level of US interest rates while Asian currencies linked to global growth prospects and commodity currencies like the Australian dollar started to appreciate. The euro strengthened towards the end of 2009 from the lows reached in March, reflecting the weak US dollar and central bank purchases for diversification purposes. Towards the end of the year the US dollar strengthened due to better than expected macroeconomic data and the scaling back of short US dollar positions as the year end approached.

### ***Sector environment***

For the financial services industry, regulatory focus on compensation practices, the level and quality of capital, liquidity, increased transparency, leverage and systemic risk dominated the agenda throughout the year.

At the beginning of the year, the US Treasury administered stress tests and injected capital into a number of banks in the US. In addition, the US Treasury announced a Public-Private Investment Program to induce private investors to purchase troubled assets from banks and increased the Term Asset-Backed Securities Loan Facility ('TALF') in order to help stimulate both new issuances and the removal of assets from bank Statement of Financial Positions. Regulatory capital ratios improved in the second quarter as a result of earnings and capital raising activities. However, the credit cycle continued its negative trend, with rising non-performing loans in retail banking and slightly higher corporate credit defaults. In the second half of the year, several large banks in the US repaid Troubled Asset Relief Program money received from the government, regaining greater flexibility. Towards the end of the year, the sector was impacted by intensifying bonus taxation discussions by governments.

The economic recovery toward the end of 2009 was fueled in part by government stimulus programmes and historically low interest rates. Stimulus measures introduced by various governments in 2009 included a reduction in income taxes, tax benefits for homeowners and car-buyers and increased spending on infrastructure programmes. Initial indications of recovery in the second half of the year included an increase in household and business spending in the US,

# CREDIT SUISSE SECURITIES (EUROPE) LIMITED

## DIRECTORS' REPORT FOR THE YEAR ENDED 31 DECEMBER 2009

manufacturing gains and an improvement in housing market activity. However, prospects for a more broad-based recovery remained modest given continued tight credit markets and weak consumer spending and employment data.

Equity markets ended the year significantly higher after initially declining in the first quarter of 2009 and the Dow Jones Industrial Average posted its biggest annual percent gain in six years. During the year, equity market volatility continued to decline from the record levels reached in November 2008. Equity trading volumes were up in the US but down in Europe and fixed income volumes were down in the US although slightly up in Europe. Credit spreads narrowed throughout the year, with significant tightening in the first quarter of 2009 from dramatically high levels in the fourth quarter of 2008. Further, cash and synthetic markets returned to a more normalised relationship following substantial dislocation in the prior year.

Until the beginning of March, commodity prices continued their downward trend, as most commodity markets suffered from oversupply and rising inventories. However, towards mid-2009 the first signs of stabilisation in commodity demand emerged, and prices began to rebound in the second quarter. Moreover, commodity prices reflected buying activity in the derivatives markets as market participants started to cover short positions. Precious metals prices benefited from the depreciation in the US dollar and falling real interest rates that spurred strong investment demand and central bank purchases. Overall, major commodity price indices were able to record solid gains over the course of 2009.

Global merger and acquisition ('M&A') activity declined significantly during the year. The decline in volume would have been more severe had it not been for extraordinary government investments in financial institutions around the world which partially offset the decline in strategic deals. However, in the fourth quarter of 2009, M&A activity rebounded significantly as the availability of financing increased. Debt and equity issuance increased throughout the year, driven by financial institutions seeking to raise capital to restore their Statement of Financial Positions and exit government ownership. The volume of high yield debt offerings in 2009 more than doubled from 2008 levels, driven by particularly strong issuance volumes in the second half of 2009. As 2009 came to a close, market conditions for underwriting and advisory continued to remain favourable as equity market valuations continued to rise and credit spreads continued to tighten.

### ***Repositioning Investment Banking***

The business environment has changed fundamentally over the past two years. CS group responded responsibly to these changes with the implementation of a client focused, capital efficient strategy and a business model that enables the Group to generate less volatile earnings.

During the fourth quarter of 2008, CS group announced an acceleration of efforts to reposition Investment Banking in response to the challenging market environment. In particular, CS group has focused on:

- reducing risk capital usage, including exiting certain proprietary and principal trading activities and aligning lending with customer franchises;
- reducing volatility and improving capital efficiency;
- increasing emphasis on client and flow-based businesses; and reducing risk limits for complex and structured products.

The Group continues to show progress on this strategy and remains committed to monitoring exposures in businesses most impacted by the recent dislocation in the credit markets. The current exposures attributable to these businesses are as follows:

- Commercial Mortgage Backed Securities ('CMBS') Business: CMBS are bonds backed by a pool of mortgage loans on commercial real estate properties. The Group has risk exposure to the underlying commercial loans from the time the loans are made until they are packaged as CMBS and distributed. During 2009, the Group transferred at fair value its CMBS business to Credit Suisse International. The fair value of the CMBS inventory was US\$Nil as at the end of 2009 (2008: US\$761M).

# CREDIT SUISSE SECURITIES (EUROPE) LIMITED

## DIRECTORS' REPORT FOR THE YEAR ENDED 31 DECEMBER 2009

- Residential Mortgage Backed Securities ('RMBS') Business: RMBS are bonds backed by a pool of mortgage loans on residential and real estate properties. The Group has risk exposure to the underlying commercial loans from the time the loans are made until they are packaged as RMBS and distributed. The fair value of the RMBS inventory was US\$337M as at the end of 2009 (2008: US\$238M).
- Leveraged Finance Business: The Group's leveraged finance business provides capital raising and advisory services, and core leveraged credit products such as bank loans, bridge loans and mezzanine and high-yield debt to corporate and financial sponsor-backed companies. The Group's total funded net exposure was US\$169M as at the end of 2009 (2008: US\$51M).

### ***Performance***

The Group reported a net profit for the year ended 31 December 2009 of US\$762M (2008: US\$2,229M loss). Net revenues before operating expenses increased to a profit of US\$3,664M compared to a loss of US\$221M in 2008; after operating expenses the Group reported a profit before tax of US\$866M (2008: US\$2,664M loss).

The Directors are of the opinion, that, although a strong positive trend year on year, the gain is not reflective of the inherent strength of the strategic businesses as significantly increased revenues were generated in the core business areas, but these were offset by losses in other areas where the Group was exiting or realigning business.

Fixed Income revenues increased by US\$3,547M compared to 2008. This is attributable to year on year increases in Emerging Markets of US\$935M, Interest Rate Products of US\$822M and Life Finance businesses of US\$299M. Interest rate products across all regions enjoyed a favourable trading environment due to improved spreads across tenors and markets as a result of increased liquidity. Credit related products revenues were driven by a strong rebound in credit markets and a narrowing of corporate credit spreads that had widened dramatically in the fourth quarter of 2008.

Equity revenues increased by US\$1,424M compared to 2008. This is primarily due to a swing of US\$899M in the Proprietary Trading business. Furthermore there were increased year on year revenues of US\$309M and US\$277M within Cash Equities and Convertibles businesses respectively. The strong performance in 2009 across these businesses was driven by improved market conditions, as higher investor confidence resulted in increased risk appetite for asset classes such as Equities.

Revenues in Investment Banking fell by US\$120M compared to 2008 due to a global decrease in activity within the Merger and Acquisition business.

Net revenues also include revenue sharing agreements with other CS group companies and the Group recognised for the year an expense of US\$571M (2008: US\$107M income), Treasury Funding charges which increased by US\$246M due to new structured funding trades and increased costs on subordinated funding and reduced private bank income of US\$42M.

The Group's operating expenses for the year were US\$2,798M (2008: US\$2,443M). This increase was due primarily to an increase in the discretionary cash variable compensation which is in line with the Group's performance together with higher expense recognition of deferred compensation awards due largely to expense recognition of Cash Retention Awards (CRA) and Partner Asset Facility awards (PAF). In addition, for 2009, the Group recognised a gain on a sale and leaseback transaction on the land and building comprising 20 Columbus Courtyard, London to M1 Group.

In response to the UK bank payroll tax on certain compensation exceeding GBP 25,000 for 2009, the aggregate amount of variable compensation awarded by CS group in 2009 was reduced by 5%, and the amount of variable compensation awarded to managing directors in the UK was significantly reduced. No expense has been recognised in 2009.

The Group's total assets in the year was US\$270,018M (2008: US\$302,428M). This was due primarily to the maturity of interest-bearing deposits with banks, reduced cash collateral in securities borrow transactions and reduced brokerage receivables.

The Company recorded a liability of GBP80M at year end for a lump sum contribution to the UK defined benefit pension scheme which was paid by CSG in Dec 2009. The Company settled this amount with CSG in Jan 2010.

# CREDIT SUISSE SECURITIES (EUROPE) LIMITED

## DIRECTORS' REPORT FOR THE YEAR ENDED 31 DECEMBER 2009

### ***Fair Value Measurement***

Fair value is considered the most relevant measurement for many financial instruments as it provides more transparency than historic cost based valuations and aligns the accounting for these financial instruments with how the business is managed.

Level 3 instruments are valued utilising inputs that are unobservable for the asset or liability. These inputs reflect the Group's own assumptions about the assumptions that market participants would use in pricing the asset or liability (including assumptions about risk). These inputs are developed based on the best information available in the circumstances, which include the Group's own data. The Group's own data used to develop unobservable inputs is adjusted if information indicates that market participants would use different assumptions.

Total Level 3 assets for the Group were US\$3.5BN (2008: US\$6.2BN), which was equivalent to 2.04% of total fair value assets.

Total Level 3 liabilities for the Group were US\$1.5BN (2008: US\$5.3BN), which was equivalent to 1.14% of total fair value liabilities.

The reduction in Level 3 assets and liabilities is primarily a result of the disposal of complex instruments in accordance with the Group's strategy to de-risk the Statement of Financial Position.

### **Involvement with Special Purpose Entities ('SPEs')**

In the normal course of business, the Group enters into transactions with, and makes use of, SPEs. Securitisation transactions are assessed in accordance with IAS39 for appropriate treatment of the assets transferred by the Group. The Group's investing or financing needs, or those of the Group's clients, determine the structure of each transaction, which in turn determines whether sale accounting and subsequent derecognition of the transferred assets under IAS39 applies. Certain transactions may be structured to include derivatives or other provisions that prevent sales accounting and related derecognition of the assets from consolidated Statement of Financial Positions.

As a normal part of business, the Group engages in various transactions that include entities which are considered SPEs. SPEs are entities which typically either lack sufficient equity to finance their activities without additional subordinated financial support or are structured such that the holders of the voting rights do not substantively participate in the gains and losses of the entity. Such entities are required to be assessed for consolidation under IAS 27 and its associated interpretation, SIC-12 which require that the entity controlling the SPE must consolidate the SPE. The Group consolidates all SPEs for which it is deemed the controlling entity. SPEs may be sponsored by the Group, unrelated third parties or clients. At each reporting date, SPEs are reviewed for events that may trigger reassessment of the entities' classification and/or consolidation. Application of the accounting requirements for consolidation of SPEs may require the exercise of significant management judgement.

Transactions with SPEs are generally executed to facilitate securitisation activities or to meet specific client needs, such as providing liquidity or investing opportunities, and, as part of these activities, the 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 our capacity as the prime broker for entities qualifying as SPEs. The Group also enters into lending arrangements with SPEs for the purpose of financing client projects or the acquisition of assets.

# CREDIT SUISSE SECURITIES (EUROPE) LIMITED

## DIRECTORS' REPORT FOR THE YEAR ENDED 31 DECEMBER 2009

Key information relating to SPE exposures as at the end of 2009 is as follows:

	<b>2009 US\$M</b>
<b>Consolidated SPEs</b>	
CDO	-
Financial intermediation	2,541
<b>Total assets of consolidated SPEs</b>	<b>2,541</b>
	<b>2009 US\$M</b>
<b>Non-consolidated SPEs</b>	
CDO	574
Financial intermediation	12,382
<b>Total assets of non-consolidated SPEs</b>	<b>12,956</b>
<b>Total maximum exposure to loss of non-consolidated SPEs</b>	
CDO	11
Financial intermediation	269

### Capital Resources

Throughout the year the Company reviews the need for injection of capital and funding from CS group to ensure ongoing stability and support of its business activities. The Company did not request any such injections during 2009. The Company continues to closely monitor its capital and funding requirements on a daily basis. CS group has confirmed that it will ensure that the Company is able to meet its debt obligations and maintain a sound financial position over the foreseeable future.

The Company must at all times monitor and demonstrate the compliance with the relevant regulatory capital requirements of the Financial Services Authority ('FSA'). The Company has put in place processes and controls to monitor and manage the Company's capital adequacy and no breaches were reported to the FSA during the year.

### Dividends

No dividends were paid or are proposed for 2009 (2008: US\$Nil).

### Risk Management

The Group's financial risk management objectives and policies and the exposure of the Group to price risk, credit risk, liquidity risk and cash flow risk are outlined in note 38.

### Directors

The names of the directors as at the date of this report are set out on page 2. Changes in the directorate since 31 December 2008 and up to the date of this report are as follows:

#### Appointment:

Eraj Shirvani	12 April 2010
Luigi de Vecchi	16 December 2009
Stephen B Dainton	30 October 2009

#### Resignation:

Gael de Boissard	12 April 2010
James Amine	16 December 2009
Simon D Yates	30 October 2009



# CREDIT SUISSE SECURITIES (EUROPE) LIMITED

## DIRECTORS' REPORT FOR THE YEAR ENDED 31 DECEMBER 2009

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 Company.

Directors of the Group 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 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 Group's auditors are aware of that information.

### **Employee Involvement and Employment of Disabled Persons**

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

- facilitates information sharing for those with a disability or those caring for a family member or friend with a disability;
- provides a support network; 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 Group made US\$785,484 (2008: US\$1,278,415) of charitable donations. There were no political donations made by the Group during the year (2008: US\$Nil).

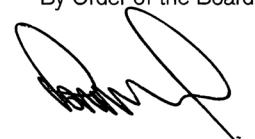
### **Auditors**

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**

The UK bank payroll tax on certain compensation exceeding GBP 25,000 for 2009 was enacted on 9 April 2010 and will result in additional compensation expense of approximately US\$265M in 2010 (being a preliminary estimate). No expense has been recognised in 2009.

By Order of the Board



Paul E Hare  
Company Secretary

One Cabot Square  
London E14 4QJ  
21 April 2010

**COMPANY REGISTRATION NUMBER: 891554**

## CREDIT SUISSE SECURITIES (EUROPE) LIMITED

### STATEMENT OF DIRECTORS' RESPONSIBILITIES

The Directors are responsible for preparing the Directors' Report and the financial statements 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 have elected to prepare both the group and the parent company 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 group and parent company and of their profit or loss for that period. In preparing each of the group and parent company financial statements, the directors are required to:

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

The Directors are responsible for keeping adequate accounting records that are sufficient to show and explain the parent company's transactions and disclose with reasonable accuracy at any time the financial position of the parent company 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 group and to prevent and detect fraud and other irregularities.

Signed on behalf of the Board of Directors on 21 April 2010 by:



Costas P Michaelides  
Director

# INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF CREDIT SUISSE SECURITIES (EUROPE) LIMITED

We have audited the financial statements of Credit Suisse Securities (Europe) Limited for the year ended 31 December 2009 set out on pages 13 to 20. 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 financial statements, as applied in accordance with the provisions of the Companies Act 2006.

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

## **Respective responsibilities of directors and auditors**

As explained more fully in the Statement of Directors' Responsibilities set out on page 10, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit 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 APB's web-site at [www.frc.org.uk/apb/scope/UKNP](http://www.frc.org.uk/apb/scope/UKNP)

## **Opinion on financial statements**

In our opinion:

- the financial statements give a true and fair view of the state of the group's and of the parent company's affairs as at 31 December 2009 and of the group's profit for the year then ended;
- the group financial statements have been properly prepared in accordance with IFRSs as adopted by the EU;
- the parent company financial statements have been properly prepared in accordance with IFRSs as adopted by the EU and as applied in accordance with the provisions of the Companies Act 2006; and
- the financial statements have been prepared in accordance with the requirements of the Companies Act 2006.

## **Opinion on other matter 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.

# INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF CREDIT SUISSE SECURITIES (EUROPE) LIMITED

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



**Nicholas J Edmonds**  
**(Senior Statutory Auditor)**  
**for and on behalf of KPMG Audit Plc, Statutory Auditor**

*Chartered Accountants*  
One Canada Square  
Canary Wharf  
London, E14 5AG

21 April 2010

CREDIT SUISSE SECURITIES (EUROPE) LIMITED  
CONSOLIDATED STATEMENTS OF INCOME FOR THE YEAR ENDED  
31 DECEMBER 2009

	Note	2009 US\$M	2008 US\$M
Interest income	4	1,639	6,886
Interest expense	4	(2,219)	(8,640)
Net interest expense		(580)	(1,754)
Commission and fee income	5	1,824	2,033
Net gains/(losses) from financial assets/liabilities at fair value through profit or loss	6	2,991	(607)
Revenue sharing agreements (expense)/income	7	(571)	107
<b>Net revenues/(expense)</b>		<b>3,664</b>	<b>(221)</b>
Gain on sale of property	33	61	-
Compensation and benefits	8	(1,879)	(1,481)
General and administrative expenses	9	(980)	(962)
<b>Total operating expenses</b>		<b>(2,798)</b>	<b>(2,443)</b>
<b>Income/(loss) before taxes</b>		<b>866</b>	<b>(2,664)</b>
Income tax (expense)/credit	10	(104)	435
<b>Net income/(loss) attributable to Credit Suisse Securities (Europe) Limited shareholders</b>		<b>762</b>	<b>(2,229)</b>

All profit or loss for both 2009 and 2008 is from continuing operations.

The Company's profit after tax was US\$762M for the year ended 31 December 2009 (2008: loss US\$2,229M).

The notes on pages 21 to 111 form an integral part of the financial statements.

CREDIT SUISSE SECURITIES (EUROPE) LIMITED  
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME FOR THE YEAR ENDED  
31 DECEMBER 2009

	Note	2009 US\$M	2008 US\$M
<b>Net income/(loss)</b>		<b>762</b>	<b>(2,229)</b>
Unrealised gains/(losses) on cash flow hedges	26	15	(15)
Foreign currency translation losses	26	(55)	(151)
Net gain on financial assets available-for-sale	26	2	25
<b>Other comprehensive loss, net of tax</b>		<b>(38)</b>	<b>(141)</b>
<b>Comprehensive income/(loss)</b>		<b>724</b>	<b>(2,370)</b>
<b>Comprehensive income/(loss) attributable to Credit Suisse Securities (Europe) Limited shareholders</b>		<b>724</b>	<b>(2,370)</b>

The notes on pages 21 to 111 form an integral part of the financial statements.

**CREDIT SUISSE SECURITIES (EUROPE) LIMITED**  
**CONSOLIDATED STATEMENTS OF FINANCIAL POSITION AS AT 31 DECEMBER 2009**

	Note	2009 US\$M	2008 US\$M
<b>Assets</b>			
Cash and due from banks		13,051	10,514
Interest-bearing deposits with banks		-	9,028
Securities purchased under resale agreements and securities borrowing transactions	12	41,716	43,663
Trading financial assets at fair value through profit or loss	13	74,224	77,587
Financial assets designated at fair value through profit or loss	14	99,047	106,296
Financial assets available-for-sale	15	36	30
Other loans and receivables	17	1,483	1,483
Current tax assets		54	32
Deferred tax assets	11	920	808
Other assets	16	39,446	52,895
Goodwill	20	8	7
Property and equipment	21	33	85
<b>Total assets</b>		<b>270,018</b>	<b>302,428</b>
<b>Liabilities</b>			
Deposits	22	2,327	2,127
Securities sold under repurchase agreements and securities lending transactions	12	47,380	34,361
Trading financial liabilities at fair value through profit or loss	13	49,218	54,629
Financial liabilities designated at fair value through profit or loss	14	85,498	96,395
Short term borrowings	23	38,973	43,372
Current tax liabilities		10	60
Deferred tax liabilities	11	109	23
Other liabilities	16	37,439	63,386
Provisions	24	8	10
Long term debt	25	2,721	2,383
<b>Total liabilities</b>		<b>263,683</b>	<b>296,746</b>
<b>Shareholders' equity</b>			
Called-up share capital	27	8,917	8,917
Retained earnings		(2,805)	(3,578)
Share-based payment reserve		441	523
Accumulated other comprehensive income	26	(218)	(180)
<b>Total Credit Suisse Securities (Europe) Limited shareholders' equity</b>		<b>6,335</b>	<b>5,682</b>
<b>Total liabilities and equity</b>		<b>270,018</b>	<b>302,428</b>

The notes on pages 21 to 111 form an integral part of the financial statements.

Approved by the Board of Directors on 21 April 2010 and signed on its behalf by:



Costas P Michaelides

**CREDIT SUISSE SECURITIES (EUROPE) LIMITED**  
**STATEMENT OF FINANCIAL POSITION OF THE COMPANY AS AT 31 DECEMBER 2009**

	Note	2009 US\$M	2008 US\$M
<b>Assets</b>			
Cash and due from banks		12,945	10,353
Interest-bearing deposits with banks		-	9,028
Securities purchased under resale agreements and securities borrowing transactions	12	41,716	43,663
Trading financial assets at fair value through profit or loss	13	76,346	78,129
Financial assets designated at fair value through profit or loss	14	96,873	103,931
Financial assets available-for-sale	15	36	30
Other loans and receivables	17	1,483	1,483
Current tax assets		54	32
Deferred tax assets	11	920	808
Other assets	16	39,446	52,851
Goodwill	20	8	7
Property and equipment	21	33	85
<b>Total assets</b>		<b>269,860</b>	<b>300,400</b>
<b>Liabilities</b>			
Deposits	22	2,327	2,127
Securities sold under repurchase agreements and securities lending transactions	12	47,380	34,361
Trading financial liabilities at fair value through profit or loss	13	49,100	54,520
Financial liabilities designated at fair value through profit or loss	14	85,219	94,488
Short term borrowings	23	38,973	43,371
Current tax liabilities		10	60
Deferred tax liabilities	11	109	23
Other liabilities	16	37,682	63,379
Provisions	24	8	10
Long term debt	25	2,721	2,383
<b>Total liabilities</b>		<b>263,529</b>	<b>294,722</b>
<b>Shareholders' equity</b>			
Called-up share capital	27	8,917	8,917
Retained earnings		(2,809)	(3,582)
Share-based payment reserve		441	523
Accumulated other comprehensive income	26	(218)	(180)
<b>Total Credit Suisse Securities (Europe) Limited shareholders' equity</b>		<b>6,331</b>	<b>5,678</b>
<b>Total liabilities and equity</b>		<b>269,860</b>	<b>300,400</b>

The notes on pages 21 to 111 form an integral part of the financial statements.

Approved by the Board of Directors on 21 April 2010 and signed on its behalf by:



Costas P Michaelides



**CREDIT SUISSE SECURITIES (EUROPE) LIMITED**  
**STATEMENT OF CHANGES IN EQUITY FOR THE YEAR ENDED 31 DECEMBER 2009**

Group	Common shares	Retained earnings	Share-based payment reserve	AOCI <sup>1</sup>	Total shareholders' equity
2009	US\$M	US\$M	US\$M	US\$M	US\$M
<b>Balance at 1 January 2009</b>	<b>8,917</b>	<b>(3,578)</b>	<b>523</b>	<b>(180)</b>	<b>5,682</b>
Foreign exchange translation differences	-	-		39	39
Share-based compensation, pre-tax	-	11	(184)	-	(173)
Share-based compensation, tax	-	-	102	-	102
Net loss on hedges of net investments in foreign entities taken to equity	-	-	-	(94)	(94)
Net gain on financial assets available-for-sale	-	-	-	2	2
Net gain on cash flow hedging instruments transferred to income statement	-	-	-	15	15
<b>Net gain/(loss) recognised directly in equity</b>	<b>-</b>	<b>11</b>	<b>(82)</b>	<b>(38)</b>	<b>(109)</b>
Net profit for the year	-	762	-	-	762
<b>Total gain/(loss) recognised for the year</b>	<b>-</b>	<b>773</b>	<b>(82)</b>	<b>(38)</b>	<b>653</b>
Share capital	-	-	-	-	-
Capital contribution	-	-	-	-	-
<b>Balance at 31 December 2009</b>	<b>8,917</b>	<b>(2,805)</b>	<b>441</b>	<b>(218)</b>	<b>6,335</b>

Group	Common shares	Retained earnings	Share-based payment reserve	AOCI <sup>1</sup>	Total shareholders' equity
2008	US\$M	US\$M	US\$M	US\$M	US\$M
<b>Balance at 1 January 2008</b>	<b>7,517</b>	<b>(1,349)</b>	<b>501</b>	<b>(39)</b>	<b>6,630</b>
Foreign exchange translation differences	-	-		(155)	(155)
Share-based compensation, pre-tax	-	-	172	-	172
Share-based compensation, tax	-	-	(150)	-	(150)
Net gain on hedges of net investments in foreign entities taken to equity	-	-	-	4	4
Net gain on financial assets available-for-sale	-	-	-	25	25
Net loss on cash flow hedging instruments transferred to income statement	-	-	-	(15)	(15)
<b>Net gain/(loss) recognised directly in equity</b>	<b>-</b>	<b>-</b>	<b>22</b>	<b>(141)</b>	<b>(119)</b>
Net loss for the year	-	(2,229)	-	-	(2,229)
<b>Total gain/(loss) recognised for the year</b>	<b>-</b>	<b>(2,229)</b>	<b>22</b>	<b>(141)</b>	<b>(2,348)</b>
Share capital	1,400	-	-	-	1,400
Capital contribution	-	-	-	-	-
<b>Balance at 31 December 2008</b>	<b>8,917</b>	<b>(3,578)</b>	<b>523</b>	<b>(180)</b>	<b>5,682</b>

1) AOCI refers to accumulated other comprehensive income.

**CREDIT SUISSE SECURITIES (EUROPE) LIMITED**  
**STATEMENT OF CHANGES IN EQUITY FOR THE YEAR ENDED 31 DECEMBER 2009**

Company	Common shares	Retained earnings	Share-based payment reserve	AOCI <sup>1</sup>	Total shareholders' equity
2009	US\$M	US\$M	US\$M	US\$M	US\$M
<b>Balance at 1 January 2009</b>	<b>8,917</b>	<b>(3,582)</b>	<b>523</b>	<b>(180)</b>	<b>5,678</b>
Foreign exchange translation differences	-	-	-	39	39
Share-based compensation, pre-tax	-	11	(184)	-	(173)
Share-based compensation, tax	-	-	102	-	102
Net loss on hedges of net investments in foreign entities taken to equity	-	-	-	(94)	(94)
Net gain on financial assets available-for-sale	-	-	-	2	2
Net gain on cash flow hedging instruments transferred to income statement	-	-	-	15	15
<b>Net gain/(loss) recognised directly in equity</b>	<b>-</b>	<b>11</b>	<b>(82)</b>	<b>(38)</b>	<b>(109)</b>
Net profit for the year	-	762	-	-	762
<b>Total gain/(loss) recognised for the year</b>	<b>-</b>	<b>773</b>	<b>(82)</b>	<b>(38)</b>	<b>653</b>
Share capital	-	-	-	-	-
Capital contribution	-	-	-	-	-
<b>Balance at 31 December 2009</b>	<b>8,917</b>	<b>(2,809)</b>	<b>441</b>	<b>(218)</b>	<b>6,331</b>

Company	Common shares	Retained earnings	Share-based payment reserve	AOCI <sup>1</sup>	Total shareholders' equity
2008	US\$M	US\$M	US\$M	US\$M	US\$M
<b>Balance at 1 January 2008</b>	<b>7,517</b>	<b>(1,353)</b>	<b>501</b>	<b>(39)</b>	<b>6,626</b>
Foreign exchange translation differences	-	-	-	(155)	(155)
Share-based compensation, pre-tax	-	-	172	-	172
Share-based compensation, tax	-	-	(150)	-	(150)
Net gain on hedges of net investments in foreign entities taken to equity	-	-	-	4	4
Net gain on financial assets available-for-sale	-	-	-	25	25
Net loss on cash flow hedging instruments transferred to income statement	-	-	-	(15)	(15)
<b>Net gain/(loss) recognised directly in equity</b>	<b>-</b>	<b>-</b>	<b>22</b>	<b>(141)</b>	<b>(119)</b>
Net loss for the year	-	(2,229)	-	-	(2,229)
<b>Total gain/(loss) recognised for the year</b>	<b>-</b>	<b>(2,229)</b>	<b>22</b>	<b>(141)</b>	<b>(2,348)</b>
Share capital	1,400	-	-	-	1,400
Capital contribution	-	-	-	-	-
<b>Balance at 31 December 2008</b>	<b>8,917</b>	<b>(3,582)</b>	<b>523</b>	<b>(180)</b>	<b>5,678</b>

1) AOCI refers to accumulated other comprehensive income.

CREDIT SUISSE SECURITIES (EUROPE) LIMITED  
CONSOLIDATED STATEMENT OF CASH FLOWS FOR THE YEAR ENDED  
31 DECEMBER 2009

	Note	Group 2009 US\$M	Group 2008 US\$M
<b>Cash flows from operating activities</b>			
Net income/(loss) before tax for the period		866	(2,664)
<b>Adjustments to net income, share-based payment reserve and accumulated other comprehensive income to net cash provided by/(used in) operating activities</b>			
Impairment, depreciation and disposals of property and equipment	21	10	11
Pension plan charge	28	(17)	(22)
Foreign exchange (losses)/gains		(47)	99
Interest accrued on subordinated debt	25	338	79
Gain on sale of property	33	(61)	-
Share-based payment reserve		(173)	22
Foreign exchange loss through equity		(40)	(166)
Unrealised gains/(losses) on financial assets available-for-sale	26	2	-
<b>Cash generated before changes in operating assets and liabilities</b>		<b>12</b>	<b>23</b>
<b>Net decrease/(increase) in operating assets:</b>			
Interest bearing deposits with banks and other loans and receivables		9,028	(6,884)
Securities purchased under resale agreements and securities borrowing transactions	12	1,947	20,633
Trading financial assets at fair value through profit or loss	13	3,363	23,726
Financial assets designated at fair value through profit or loss	14	7,249	1,637
Financial assets available-for-sale	15	(6)	-
Accrued income, prepaid expenses, other investments and other assets	16	13,611	(2,415)
<b>Net decrease in operating assets</b>		<b>35,192</b>	<b>36,697</b>
<b>Net (decrease)/increase in operating liabilities:</b>			
Securities sold under repurchase agreements and securities lending transactions	12	13,019	(24,575)
Deposits	22	200	834
Short term borrowings	23	(4,399)	(18,323)
Trading financial liabilities at fair value through profit or loss	13	(5,411)	(3,704)
Financial liabilities designated at fair value through profit or loss	14	(10,897)	(2,789)
Accrued expenses and other liabilities	16	(25,947)	18,522
Provisions	24	(2)	-
<b>Net decrease in operating liabilities</b>		<b>(33,437)</b>	<b>(30,035)</b>
<b>Cash flow from operations</b>		<b>2,633</b>	<b>4,021</b>
Income tax paid		(83)	(199)
Pension plan contribution	28	(114)	(119)
<b>Net cash flow used in operating activities</b>		<b>2,436</b>	<b>3,703</b>
<b>Investing activities</b>			
Proceeds from sale of premises, equipment and intangible assets	21	221	11
Capital expenditure for property and equipment	21	(120)	(1)
<b>Net cash flow from investing activities</b>		<b>101</b>	<b>10</b>
<b>Financing activities</b>			
Redemption of long term debt	25	-	(426)
Increase in capital	27	-	1,400
Interest paid	16	-	(107)
<b>Net cash flow from financing activities</b>		<b>-</b>	<b>867</b>
<b>Net increase in cash and cash equivalents</b>		<b>2,537</b>	<b>4,580</b>
<b>Cash and cash equivalents at beginning of the year</b>		<b>10,514</b>	<b>5,934</b>
<b>Cash and cash equivalents at end of the year</b>		<b>13,051</b>	<b>10,514</b>

The notes on pages 21 to 111 form an integral part of the financial statements.

CREDIT SUISSE SECURITIES (EUROPE) LIMITED  
COMPANY CASH FLOW STATEMENT FOR THE YEAR ENDED  
31 DECEMBER 2009

	Note	Company 2009 US\$M	Company 2008 US\$M
<b>Cash flows from operating activities</b>			
Net income/(loss) before tax for the period		866	(2,664)
<b>Adjustments to net income, share-based payment reserve and accumulated other comprehensive income to net cash provided by/(used in) operating activities</b>			
Impairment, depreciation and disposals of property and equipment	21	10	11
Pension plan charge	28	(17)	(22)
Foreign exchange (losses)/gains		(47)	99
Interest accrued on subordinated debt	25	338	79
Gain on sale of property	33	(61)	-
Share-based payment reserve		(173)	22
Foreign exchange loss through equity		(40)	(166)
Unrealised gains/(losses) on financial assets available-for-sale	26	2	-
<b>Cash generated before changes in operating assets and liabilities</b>		<b>12</b>	<b>23</b>
<b>Net decrease/(increase) in operating assets:</b>			
Interest bearing deposits with banks and other loans and receivables		9,028	(6,884)
Securities purchased under resale agreements and securities borrowing transactions	12	1,947	20,633
Trading financial assets at fair value through profit or loss	13	1,783	24,280
Financial assets designated at fair value through profit or loss	14	7,058	372
Financial assets available-for-sale	15	(6)	-
Accrued income, prepaid expenses, other investments and other assets	16	13,567	(2,373)
<b>Net decrease in operating assets</b>		<b>33,377</b>	<b>36,028</b>
<b>Net (decrease)/ increase in operating liabilities:</b>			
Securities sold under repurchase agreements and securities lending transactions	12	13,019	(24,575)
Deposits	22	200	834
Short term borrowings	23	(4,398)	(18,318)
Trading financial liabilities at fair value through profit or loss	13	(5,420)	(3,787)
Financial liabilities designated at fair value through profit or loss	14	(9,269)	(2,042)
Accrued expenses and other liabilities	16	(25,697)	18,518
Provisions	24	(2)	-
<b>Net decrease in operating liabilities</b>		<b>(31,567)</b>	<b>(29,370)</b>
<b>Cash flow from operations</b>		<b>2,688</b>	<b>4,017</b>
Income tax paid		(83)	(199)
Pension plan contribution	28	(114)	(119)
<b>Net cash flow used in operating activities</b>		<b>2,491</b>	<b>3,699</b>
<b>Investing activities</b>			
Proceeds from sale of premises, equipment and intangible assets	21	221	11
Capital expenditure for property and equipment	21	(120)	(1)
<b>Net cash flow from investing activities</b>		<b>101</b>	<b>10</b>
<b>Financing activities</b>			
Redemption of long term debt	25	-	(426)
Increase in capital	27	-	1,400
Interest paid	16	-	(107)
<b>Net cash flow from financing activities</b>		<b>-</b>	<b>867</b>
<b>Net increase in cash and cash equivalents</b>		<b>2,592</b>	<b>4,576</b>
<b>Cash and cash equivalents at beginning of the year</b>		<b>10,353</b>	<b>5,777</b>
<b>Cash and cash equivalents at end of the year</b>		<b>12,945</b>	<b>10,353</b>

The notes on pages 21 to 111 form an integral part of the financial statements.

# CREDIT SUISSE SECURITIES (EUROPE) LIMITED

## NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2009

### 1. General

The Company is domiciled in the United Kingdom. The address of the Group's registered office is One Cabot Square, London, E14 4QJ. The Consolidated Financial Statements for the year ended 31 December 2009 comprise Credit Suisse Securities (Europe) Limited and its subsidiaries (including special purpose entities).

### 2. Significant Accounting Policies

#### a) Statement of compliance

Both the Company financial statements and the 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') and the International Financial Reporting Interpretations Committee. On publishing the Company financial statements here together with the Group financial statements, the Company is taking advantage of the exemption in s408 of the Companies Act 2006 not to present its individual income statement and related notes.

#### b) Basis of preparation

The Consolidated Financial Statements are presented in United States dollars (US\$) 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 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.

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 Group and Company have unrestricted and direct access to funding sources by CSG. After making enquiries of CSG, the Directors of the Company have received confirmation that CSG will ensure that the Company 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 Group has adopted the following amendments and interpretations in the current year:

- IAS 1 Revised - Presentation of Financial Statements:  
Details changes to the presentation of the financial statements, specifically around non-owner changes in equity (that is, 'comprehensive income') and the presentation thereof.
- IAS 1 and IAS 32 revised - Puttable instruments and obligations arising on liquidation:  
The amendments provide for equity treatment, under certain circumstances, for financial instruments puttable at fair value and obligations arising on liquidation only.
- IFRS 2 Amendments - Share Based Payment:  
These amendments clarify the terms 'vesting conditions' and 'cancellations'.

# CREDIT SUISSE SECURITIES (EUROPE) LIMITED

## NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2009

### 2. Significant Accounting Policies (continued)

- IFRS 3 Business Combinations and IAS 27 Consolidated and Separate Financial Statements:  
Details changes to Business Combination accounting including Acquisition cost, Contingent consideration, Goodwill and noncontrolling interest, Step acquisition, Partial disposal of an investment and acquiring additional shares in the subsidiary after control was obtained.
- IFRS 7 and IFRS 1 - Amendment to IFRS 7 Improving Disclosures about Financial Instruments:  
The amendments require enhanced disclosures about fair value measurements and liquidity risk and relief from comparative disclosures for amendments in IFRS 1.
- IAS 32 Amendment 'Financial instruments' Presentation: Classification of Rights Issues.  
The amendment provides guidance on the classification of rights issues denominated in a currency other than the functional currency of the issuer.
- IAS 39 Amendments – Financial Instruments: Recognition and Measurement and IFRS 7 – Financial Instruments: Disclosures regarding reclassification of financial assets.  
These amendments to IAS 39 allowed certain classifications of non-derivative financial assets out of fair value through profit or loss and also allow the reclassification of financial assets from available for sale to land and receivables, the IFRS 7 amendments require further disclosures around these reclassifications.
- Amendments to IAS 39 and IFRIC 9 – Embedded derivatives.  
This clarifies the accounting treatment of embedded derivatives for entities that make use of the reclassification amendments to IAS 39.
- Amendments to IAS 39 'Financial Instruments: Recognition and Measurement' Eligible Hedged Items.  
These amendments clarify what can be designated as a hedged item in a hedge accounting relationship and deals with the circumstances in which an entity may designate a portion of the cash flows of a financial instrument as a hedged item.
- IFRIC 16 – Hedges of a Net Investment in a Foreign Operation.  
This amendment clarifies issues around hedges of a net investment in a foreign operation.
- IFRIC 17 – Distributions of Non-Cash Assets to Owners.  
This amendment clarifies the recognition and measurement of dividends payable.
- IFRIC 18 – Transfers of Assets from Customers.  
This amendment clarifies the treatment of accounting for customer contributions, being transactions in which an entity – the 'access provider' – receives an asset it uses to provide access to an ongoing supply of 'goods or services' to a customer or customers.
- Improvements to IFRS:  
These amendments which resulted from IASB's annual improvements project comprise amendments that result in accounting charges for presentation, recognition or measurement purposes as well as terminology or editorial amendments related to a variety of individual IFRS standards.

### Standards and Interpretations in issue but not yet effective

The Group is not required to adopt the following standards and interpretations which are issued but not yet effective.

- IAS 32 Amendment 'Financial instruments' Presentation: Classification of Rights Issues. The amendment provides guidance on the classification of rights issues denominated in a currency other than the functional currency of the issuer (effective for annual periods beginning on or after 1 February 2010 – expected adoption date 1 February 2010).

# CREDIT SUISSE SECURITIES (EUROPE) LIMITED

## NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2009

### **2. Significant Accounting Policies (continued)**

The expected impact of the standards and interpretations issued but not yet effective is still being assessed, however, the Group does not anticipate that the above interpretations will have a material impact on the reported numbers in the Consolidated Financial Statements in the period of initial application. The accounting policies have been applied consistently by Group entities.

Certain reclassifications have been made to the prior year Consolidated Financial Statements of the Group to conform to the current year's presentation. These reclassifications are not material.

#### **c) Basis of consolidation**

The Consolidated Financial Statements include the results and positions of the Company and its subsidiaries (including special purpose entities). The Consolidated Financial Statements include the Statements of Income, Statement of Comprehensive Income, Statement of Financial Position, Statement of Cash Flow, Statements of Changes in Equity and the related notes of the Group and Company.

A subsidiary is an entity in which the Company 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 Company has the power to govern the financial and operating policies of an investee entity so as to obtain benefits from its activities. The Company also consolidates entities when the substance of the relationship between the Company and the entity indicates that it is controlled by the Company in accordance with SIC 12 'Consolidation – Special Purpose Entities'. The results of subsidiaries acquired are included in the Consolidated Financial Statements from the date that control commences until the date that control ceases. Investments in subsidiary undertakings are accounted for at cost, in accordance with IAS27 'Consolidated and Separate Financial Statements', in the Company's stand alone accounts.

The effects of intercompany transactions and balances have been eliminated in preparing the Consolidated Financial Statements.

#### **d) Foreign currency**

The Group's functional currency is United States Dollars ('US\$'). 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 US\$ at the foreign exchange rate ruling at that date. Foreign exchange differences arising from translation are recognised in the income statement. 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 Group companies with functional currencies other than US\$ are translated to US\$ at foreign exchange rates ruling at the reporting date. The revenue and expenses of these Group companies are translated to US\$ 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 income statement as part of the gain or loss on disposal.

#### **e) Cash and due from banks**

For the purpose of preparation and presentation of the cash flow statement, Cash and due from banks are defined as short term, highly liquid instruments with original maturities of three months or less and that are held or utilised for the purpose of cash management. These relate to balances included as part of 'Cash and due from banks' and 'Deposits'.

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'.

# CREDIT SUISSE SECURITIES (EUROPE) LIMITED

## NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2009

### **2. Significant Accounting Policies (continued)**

#### **f) 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') are generally treated as collateralised financing transactions. In reverse repurchase agreements, the cash advanced, including accrued interest is recognised on the Statement of Financial Position as an asset. In repurchase agreements, the cash received, including accrued interest is recognised on the Statement of Financial Position as a liability.

Securities received under reverse repurchase agreements and securities delivered under repurchase agreements are not transferred unless all or substantially all the risks and rewards are obtained or relinquished. The 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 accrual basis and recorded as interest income or interest expense for agreements that are not classified as financial assets or other financial liabilities designated at fair value through profit or loss.

#### **g) Securities borrowing and lending**

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 Statement of Financial Position unless the risks and rewards of ownership are also transferred. In transactions where the borrower has the right to sell or repledge the securities transferred by the Group, the securities are presented on the Statement of Financial Position as encumbered. If cash collateral is advanced or received, securities borrowing and lending activities are recorded at the amount of cash collateral (advanced on securities borrowed) or (received on securities lent). The sale of securities received in a securities borrowing transaction results in the recognition of a trading liability (short sale).

The 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.

#### **h) Derivative financial instruments and hedging**

All freestanding derivative contracts are carried at fair value in the consolidated statements 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 statements 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.



# CREDIT SUISSE SECURITIES (EUROPE) LIMITED

## NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2009

### 2. Significant Accounting Policies (continued)

#### *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 statement of income unless, consistent with the provisions of IAS 39, the fair value option is elected (as described in note i 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 statements of financial position as the host instrument.

#### *Hedge accounting*

Where hedge accounting is applied, the Group formally documents all relationships between hedging instruments and hedged items, including the risk management objectives and strategy for undertaking hedge transactions. At inception of a hedge and on an ongoing basis, the hedge relationship is formally assessed to determine whether the derivatives that are used in hedging transactions are highly effective in offsetting changes in fair values or cash flows of hedged items attributable to the hedged risk on both a retrospective and prospective basis. The Group discontinues hedge accounting prospectively in circumstances where:

- it is determined that the derivative is no longer effective in offsetting changes in the fair value or cash flows of a hedged item (including forecasted transactions);
- the derivative expires or is sold, terminated, or exercised;
- the derivative is no longer designated as a hedging instrument because it is unlikely that the forecasted transaction will occur; or
- the Group otherwise determines that designation of the derivative as a hedging instrument is no longer appropriate.

#### **Cash flow hedge accounting**

For hedges of the variability of cash flows from forecasted transactions and floating rate assets or liabilities, the effective portion of the change in the fair value of a designated derivative is recorded in accumulated other comprehensive income (AOCI) as part of shareholders' equity. These amounts are reclassified into the consolidated statement of income when the variable cash flow from the hedged item impacts earnings (e.g. when periodic settlements on a variable rate asset or liability are recorded in the consolidated statement of income or when the hedged item is disposed of). Hedge ineffectiveness is recorded in net gains/(losses) from financial assets/liabilities at fair value through profit or loss. When hedge accounting is discontinued on a cash flow hedge, the net gain or loss will remain in AOCI and be reclassified into the consolidated statement of income in the same period or periods during which the formerly hedged transaction is reported in the consolidated statement of income. When the Group discontinues hedge accounting because a forecasted transaction is no longer expected to occur, the derivative will continue to be carried on the consolidated statement of financial position at its fair value, and gains and losses that were previously recorded in equity will be recognized immediately in the consolidated statement of income. When the Group discontinues hedge accounting but the forecasted transaction is still expected to occur, the derivative will continue to be recorded at its fair value with all subsequent changes in value recorded directly in the consolidated statement of income. Any gains or losses recorded in equity prior to the date hedge accounting is no longer applied will be reclassified to net income when the forecasted transaction takes place.

#### **Net investment hedges**

For hedges of a net investment in a foreign operation, the change in the fair value of the hedging derivative is recorded in AOCI to the extent the hedge is effective. The change in fair value representing hedge ineffectiveness is recorded in net gains/(losses) from financial assets/liabilities at fair value through profit or loss. The Group uses the forward method of determining effectiveness for net investment hedges, which results in the time value portion of a foreign currency forward being reported in AOCI to the extent the hedge is effective.

# CREDIT SUISSE SECURITIES (EUROPE) LIMITED

## NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2009

### 2. Significant Accounting Policies (continued)

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

The 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'.

IAS39 permits an entity to reclassify non derivative financial assets, other than those designated at fair value through profit or loss (i.e. trading financial assets) upon initial recognition, out of the fair value through profit or loss category if they are no longer held for the purpose of being sold or repurchased in the near term, as follows:

- (i) if the financial asset would have met the definition of loans and receivables, if the financial asset had not been required to be classified as held for trading at initial recognition, then it may be reclassified if the entity has the intention and ability to hold the financial asset for the foreseeable future or until maturity;
- (ii) if the financial asset would not have met the definition of loans and receivables, then it may be reclassified out of the trading category only in 'rare circumstances'.

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

Trading assets and liabilities include mainly debt and equity securities, derivative instruments and loans. 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. Transactions with a normal settlement period are recorded on a trade date basis.

#### ***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 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.

# CREDIT SUISSE SECURITIES (EUROPE) LIMITED

## NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2009

### 2. Significant Accounting Policies (continued)

The Fair Value Option has been applied to certain debt instruments, equity securities and loans and the related assets and liabilities are presented as 'Other financial assets designated at fair value through profit or loss' or 'Other 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'.

#### j) Recognition and Derecognition

##### *Recognition*

The Group recognises financial instruments on its consolidated statements of financial position when the Group becomes a party to the contractual provisions of the instrument.

##### *Trade date accounting*

Purchases and sales of financial assets and liabilities at fair value through profit or loss are recorded on a trade date basis.

##### *Derecognition*

The Group enters into transactions where it transfers assets recognised on its 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 statement of financial position.

In transactions where the 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 Group continues to recognise the asset to the extent of its continuing involvement, determining by the extent to which it is exposed to changes in the value of the transferred asset.

The Group derecognises financial liabilities when they are extinguished. Where the Group has a financial liability and this instrument is exchanged for a new instrument with the same counterparty, which is substantially different, or when an existing instrument classified as a financial liability is substantially modified, the old 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 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.

#### k) Netting

The Group only offsets financial assets and liabilities and presents the net amount in 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 Group's net position on multiple transactions with the same counterparty is legally protected by Master Netting Agreements. Such agreements 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 'Financial Instruments: Presentation' to offset transactions falling under Master Netting Agreements.

# CREDIT SUISSE SECURITIES (EUROPE) LIMITED

## NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2009

### 2. Significant Accounting Policies (continued)

#### l) Dividend policy

Dividends are recognised when declared as a reduction of equity along with the corresponding liability equalling the amount payable.

#### m) Income tax

Income tax on the profit or loss for the year comprises current and deferred tax. 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 income statement, the related income tax initially recognised in equity is also subsequently recognised in the income statement.

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 substantially enacted at the reporting date.

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 principal temporary differences arise from the following: depreciation of property and equipment; revaluation of certain financial assets and liabilities including derivative contracts and other employee compensation and benefits. 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 in the Statement of Financial Position, using tax rates enacted or substantially enacted at the reporting date.

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.

Information as to the calculation of income tax on the profit or loss for the periods presented is included in Note 10.

#### n) Goodwill

Goodwill arises on the acquisition of subsidiaries and equity method investments. It is measured as the excess of the fair value of the consideration transferred, the amount of any non-controlling interest in the acquiree and the fair value of any previously held equity interest in the acquired subsidiary, over the net of the acquisition-date fair values of the identifiable assets acquired and the liabilities assumed. Acquisition related costs are expensed as incurred. For the purpose of calculating goodwill, fair values of assets acquired and liabilities assumed are calculated by using quoted market prices, if available, or by applying appropriate valuation techniques.

Goodwill on the acquisition of subsidiaries is capitalised and reviewed annually for impairment, or more frequently if there are indications that impairment may have occurred. Goodwill is allocated to businesses for purpose of impairment testing considering the level at which goodwill is monitored for internal management purposes. Goodwill on the acquisitions of equity method investments is included in the amount of the investments and is reviewed annually for impairment, or more frequently if there is an indication that impairment may have occurred. If goodwill has been allocated to a business and an operation within that unit is disposed of, the attributable goodwill is included within the carrying amount of the operation when determining the gain or loss on disposal.

# CREDIT SUISSE SECURITIES (EUROPE) LIMITED

## NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2009

### 2. Significant Accounting Policies (continued)

#### o) 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 Group and the cost of the item can be measured reliably. All other repairs and maintenance are charged to the Consolidated Statements of Income during the financial period in which they are incurred. Depreciation on other assets is calculated using the straight-line method to allocate their cost to their residual values over their estimated useful lives, as follows:

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

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at each reporting date. Assets that are subject to amortisation are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount. The recoverable amount is the higher of the asset's fair value less costs to sell and value in use.

Gains and losses on disposals are determined by comparing proceeds with the carrying amount. These are included in the income statement.

#### p) Retirement benefit costs

The Group has both defined contribution and defined benefit pension plans. The defined benefit plans are CSG schemes, in which the Company is the sponsoring entity. Obligations for contributions to defined contribution pension plans are recognised as an expense in the income statement as incurred.

The Group's expense relating to the defined benefit pension plans is accrued over the employees' service periods based upon the actuarially determined cost for the period. Actuarial gains and losses are recognised as income or expense when the net cumulative unrecognised actuarial gains and losses for each individual plan at the end of the previous reporting year exceed 10% of the higher of the defined benefit obligation and the fair value of plan assets at that date. These gains or losses are recognised over the expected average remaining working lives of the employees participating in the plans.

The Company has no contractual agreement or stated policy for charging the net defined benefit cost to participating entities.

#### q) Long term debt

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

# CREDIT SUISSE SECURITIES (EUROPE) LIMITED

## NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2009

### 2. Significant Accounting Policies (continued)

#### r) 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 of an outflow of resources to settle the obligation is considered remote in which case the obligation is neither recognised nor disclosed. A contingent liability acquired under a business combination is recognised at fair value.

#### s) Provisions

Provisions are recognised if they are obligations which can be reliably measured and it is probable that an outflow of resources embodying economic benefits will be required to settle the obligations. The expense recognised when provisions are established is recorded in general and administrative expenses on the consolidated statement of income. Provision for loan losses are recorded in provision for credit losses in the consolidated statement of income.

#### t) Share-based payments

IFRS 2, as interpreted by IFRIC 11, requires that when a parent entity grants rights to equity instruments of itself directly to the employees of its subsidiary, such subsidiary should classify the share-based arrangement as equity-settled. As CSG, i.e. the Company's ultimate parent company, is the grantor of the awards, all share-based arrangements are classified as equity-settled. Equity-settled arrangements are fair valued on grant date and subsequently amortised through the statement of income. The expense for share-based payments is determined by treating each tranche as a separate grant of share awards unless the employee is eligible for early retirement or retirement before the end of the vesting period, in which case recognition of the expense would be accelerated over the shorter period.

#### u) Interest income and expense

Interest income and expense includes interest income and expense on the 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 Group's trading derivatives (except for hedging relationships), trading instruments and financial instruments classified as at fair value through profit or loss (except for securities purchased under resale agreements and securities sold under repurchase agreements) or these are recorded in 'Net gains/(losses) from financial assets/liabilities at fair value through profit or loss'.

#### v) Commissions and fees

In accordance with IAS 18 'Revenue Recognition', 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.

# CREDIT SUISSE SECURITIES (EUROPE) LIMITED

## NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2009

### **2. Significant Accounting Policies (continued)**

Performance linked fees or fee components are recognised when the recognition criteria are fulfilled. Fee revenue is recognised from a diverse range of services provided to customers. Fee income is accounted for as follows:

- income earned on the execution of a significant act (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) is recognised as revenue when the act is completed;
- income earned from the provision of services (for example, portfolio management, customer trading and custody services) is recognised as revenue as the services are provided; and
- income which forms an integral part of the effective interest rate of a financial instrument (for example, certain loan commitment fees) is recognised as an adjustment to the effective interest rate and recorded in 'Interest income'.

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 Group recognises the related revenue.

#### **w) Operating leases**

The leases entered into by the Group are exclusively operating leases. The total payments made under operating leases are charged to the income statement 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.

#### **x) Subleases**

The subleases entered into by the Group are exclusively operating leases. Sublease payments received are recognised through the income statement.

# CREDIT SUISSE SECURITIES (EUROPE) LIMITED

## NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2009

### 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 policies, refer to note 2, specifically the following:

- h) Derivative financial instruments and hedging
- i) Financial assets and liabilities at fair value through profit or loss
- j) Recognition and Derecognition
- r) Contingent liabilities
- s) Provisions

Management believes that the critical accounting estimates discussed below involve the most complex 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***

Trading financial assets and liabilities, derivative instruments and financial assets and liabilities designated at fair value are recognised in the consolidated statement of income.

The fair value of the majority of the 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 Paper, 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 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 varying degrees of judgement depending on liquidity, concentration, pricing assumptions and 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 high yield debt securities, distressed debt securities, certain OTC derivatives, certain collateralised debt obligations (CDO), certain asset-backed and mortgage-backed securities, non-traded equity securities, private equity and other long-term investments.



# CREDIT SUISSE SECURITIES (EUROPE) LIMITED

## NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2009

### 3. Critical Accounting Estimates and Judgements in Applying Accounting Policies (continued)

As at the end of 2009, 64.17% and 51.09% of our total assets and total liabilities attributable to shareholders, respectively, were measured at fair value. As at the end of 2009, 1.31% of total assets attributable to shareholders were classified as level 3 assets attributable to shareholders compared to 2.04% as of the end of 2008. As at the end of 2009, 0.58% of total liabilities attributable to shareholders were classified as level 3 liabilities attributable to shareholders compared to 2.12% as of the end of 2008.

For further information on the fair value hierarchy and a description of the valuation techniques, see note 35 – 'Financial Instruments'.

The 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 'Financial Instruments Recognition and Measurement' AG 76A.

Control processes are applied to ensure that the fair value of the financial instruments reported in the consolidated 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 or 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, the Company engages in various transactions that includes entities which are considered SPEs. An SPE is an entity that typically lacks sufficient equity to finance its activities without additional subordinated financial support or is structured such that the holders of the voting rights do not substantively participate in the risks and rewards of ownership of the entity. Such entities are required to be assessed for consolidation under IAS27 'Consolidated and separate financial instruments' and its interpretation, SIC-12. An SPE is consolidated by the Company when the substance of the relationship between the Company and the SPE indicates that the SPE is controlled by the Company. SPEs may be sponsored by the Company, unrelated third parties or clients. Application of the accounting requirements for consolidation of SPEs initially and if certain events occur that require the Company to reassess whether consolidation is required, can require the exercise of significant management judgement.

When evaluating the consolidation of SPEs, the Company considers the following four indicators:

- (a) In substance, the activities of the SPE are being conducted on behalf of the Company according to its specific business needs so that the Company obtains benefits from the SPEs operation;
- (b) In substance, the Company 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 Company has delegated these decision-making powers;
- (c) In substance, the Company 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 Company retains the majority of the residual or ownership risks related to the SPE or its assets in order to obtain benefits from its activities.

# CREDIT SUISSE SECURITIES (EUROPE) LIMITED

## NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2009

### 3. Critical Accounting Estimates and Judgements in Applying Accounting Policies (continued)

#### *Contingencies and loss provisions*

##### **Litigation contingencies**

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

A contingency is an existing condition that involves a degree of uncertainty that will ultimately be resolved upon the occurrence of future events. From time to time, the Group is involved in a variety of legal, regulatory and arbitration matters in connection with the conduct of its businesses.

It is inherently difficult to predict the outcome of many of these matters, particularly those cases in which the matters are brought on behalf of various classes of claimants, which seek damages of unspecified or indeterminate amounts or which involve novel 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 Group's defences and its experience in similar cases or proceedings.

##### **Allowances and Impairment Losses on other loans and receivables**

As a normal part of its business, the 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 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 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. 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.

##### ***Retirement Benefit Costs***

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

The calculation of the expense and liability associated with the defined benefit pension plans requires the extensive use of assumptions, which include the discount rate, expected return on plan assets and rate of future compensation increases as determined by the Company. 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 the Company may differ materially from actual results due to changing market and economic conditions, higher or lower withdrawal rates or longer or shorter life spans of the participants. Any such differences could have a significant impact on the amount of pension expense recorded in future years.

# CREDIT SUISSE SECURITIES (EUROPE) LIMITED

## NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2009

### 3. Critical Accounting Estimates and Judgements in Applying Accounting Policies (continued)

The Company is required to estimate the expected return on plan assets, which is then used to compute the pension cost recorded in the consolidated statements 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's investment and actuarial advisors. The Company uses the calculated value of assets in calculating pension expense and in determining the expected rate of return.

The discount rate used in determining the benefit obligation is based upon either high-quality corporate bond rates or government bond rates plus a premium in order to approximate high-quality corporate bond rates. In estimating the discount rate, the Company takes into consideration the relationship between the corporate bonds and the timing and amount of the future cash outflows of its benefit payments.

In July 2007, the International Financial Reporting Interpretations Committee ('IFRIC') issued interpretation IFRIC 14 'IAS 19 – The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction' ('IFRIC 14'). IFRIC 14 provides general guidance on how to assess the limit in IAS 19, 'Employee Benefits' on the amount of a pension fund surplus that can be recognized as an asset. It also explains how the pension asset or liability may be affected when there is a statutory or contractual minimum funding requirement. No additional liability need be recognized by the employer under IFRIC 14 unless the contributions that are payable under the minimum funding requirement cannot be returned to the company. IFRIC 14 was endorsed by the EU in December 2008, hence the Company adopted the new requirements on 1 January 2008. As the Company is the settlor, it will have an unconditional right to any residual surplus once all the liabilities under the fund have been met, accordingly there is no impact on the Company's IAS19 results in respect of the scheme.

#### **Taxes**

##### ***Tax contingencies***

Significant judgement is required in determining the effective tax rate and in evaluating certain tax positions. The Group accrues for tax contingencies despite the belief that positions taken in tax returns are always fully supportable. Tax contingency accruals are adjusted due to 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 and liabilities are recognised to reflect the estimated amounts of income tax recoverable or payable in future periods in respect of temporary differences and unused carry forward of tax losses and credits. For temporary differences, a deferred tax asset is recognised to the extent that it is probable that taxable income will be available against which the deductible temporary difference can be utilised. Similarly, a deferred tax asset is recognised on unused carry forward tax losses and credits to the extent that it is probable that future taxable profits will be available against which the unused carry forward tax losses and credits can be utilised.

Periodically, management evaluates the probability that taxable profits will be available against which the deductible temporary differences and unused carry forward tax losses and credits can be utilised. Within this evaluation process, management also considers tax planning strategies. The evaluation process requires significant management judgement, primarily with respect to projecting future taxable profits.

The deferred tax asset has been recognised in full on the basis that there is sufficient probability that future taxable profit will be available against which the Group can utilise these benefits. This is based on management's assessment that it is probable that the Group will have taxable profits against which the unused tax losses and deductible temporary differences can be utilised. Generally, in determining the amounts of deferred tax assets to be recognised, management considers available evidence including forecast operating income and, where applicable, a review of the eligible carry-forward periods, tax planning opportunities and other relevant considerations.

# CREDIT SUISSE SECURITIES (EUROPE) LIMITED

## NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2009

### **3. Critical Accounting Estimates and Judgements in Applying Accounting Policies (continued)**

#### ***Share-based payments***

For share-based payment transactions, the Group may receive a tax deduction related to the compensation paid in shares. The amount deductible for tax purposes may differ from the cumulative compensation expense recorded. At any reporting date, the Group must estimate the expected future tax deduction based on the current share price. If the amount deductible, or expected to be deductible, for tax purposes exceeds the cumulative compensation expense, the excess tax benefit is recognised in equity. If the amount deductible, or expected to be deductible, for tax purposes is less than the cumulative compensation expense, the shortfall is recognised in the Group's statement of income for the period.

#### ***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.

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4. Net interest expense

	Group 2009 US\$M	Group 2008 US\$M
Securities purchased under resale agreements and securities borrowing transactions	541	1,760
Trading financial assets at fair value through profit or loss	840	4,329
Other loans and receivables	106	1
Other	152	796
<b>Interest income</b>	<b>1,639</b>	<b>6,886</b>
Deposits	(26)	(77)
Securities sold under repurchase agreements and securities lending transactions	(608)	(1,954)
Trading financial liabilities at fair value through profit or loss	(509)	(3,451)
Short term borrowings	(565)	(2,710)
Long term debt	(494)	(286)
Other	(17)	(162)
<b>Interest expense</b>	<b>(2,219)</b>	<b>(8,640)</b>
<b>Net interest expense</b>	<b>(580)</b>	<b>(1,754)</b>

5. Commission and fee income

	Group 2009 US\$M	Group 2008 US\$M
Underwriting	852	349
Brokerage	938	1,423
Underwriting and brokerage	1,790	1,772
Other customer services	149	369
<b>Total commission and fee income</b>	<b>1,939</b>	<b>2,141</b>
<b>Total commission and fee expense</b>	<b>(115)</b>	<b>(108)</b>
<b>Net commission and fee income</b>	<b>1,824</b>	<b>2,033</b>

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

	Group 2009 US\$M	Group 2008 US\$M
Net gains/(losses) from trading financial assets/liabilities at fair value through profit or loss	2,991	(607)
Of which net gains/(losses) from financial assets/liabilities designated at fair value through profit or loss	(276)	(34)

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**6. Net gains/(losses) from financial assets/liabilities at fair value through profit or loss (continued)**

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

	<b>Group 2009 US\$M</b>	<b>Group 2008 US\$M</b>
Fixed income/Interest rate	1,644	(2,312)
Foreign exchange	(338)	368
Equity	1,525	827
Net dividend income on trading assets and liabilities	(86)	772
Other	246	(262)
<b>Total net gains/(losses) from trading financial assets/liabilities at fair value through profit or loss</b>	<b>2,991</b>	<b>(607)</b>

**Of which net gains/(losses) from financial assets/liabilities designated at fair value through profit or loss**

	<b>Group 2009 US\$M</b>	<b>Group 2008 US\$M</b>
Securities purchased under resale agreements and securities borrowing transactions	(32)	151
Other loans and receivable	(138)	(1,199)
of which related to credit risk	(138)	(836)
Other financial assets designated at fair value through profit or loss	(138)	300
of which related to credit risk	34	13
Securities sold under repurchase agreements and securities lending transactions	(15)	(109)
Long-term debt	16	(21)
Other financial liabilities designated at fair value through profit or loss	31	844
<b>Total net gains/(losses) from financial assets/liabilities designated at fair value through profit or loss</b>	<b>(276)</b>	<b>(34)</b>

**7. Revenue sharing agreements**

Revenue sharing agreements of US\$571M expense (2008: US\$107M income) principally relate to amounts charged to the Group from other CS group companies under transfer pricing policies.

**8. Compensation and benefits**

	<b>Group 2009 US\$M</b>	<b>Group 2008 US\$M</b>
Salaries and variable compensation	1,587	1,391
Social security	271	36
Pensions	13	13
Other	8	41
<b>Compensation and benefits</b>	<b>1,879</b>	<b>1,481</b>

Staff cost and staff numbers do not differ between Group and Company. Included in the above table are amounts relating to directors' remuneration. Further details are disclosed in note 30 (e).

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9. General and administrative expenses

	<b>Group 2009 US\$M</b>	<b>Group 2008 US\$M</b>
Occupancy expenses	152	166
IT and machinery	127	118
Depreciation expenses	10	13
Provisions	-	3
Commission expenses	441	571
Travel and entertainment	59	90
Audit fees of the Group	2	2
Professional services	273	254
Other	205	189
Expenses receivable from other Credit Suisse group companies	(289)	(444)
<b>General and administrative expenses</b>	<b>980</b>	<b>962</b>

The Group incurs expenses on behalf of other CS group companies under common control. These are subsequently recharged to the relevant companies through 'Expenses receivable from other CS group companies', see note 30.

10. Current tax assets

	<b>Group and Company 2009 US\$M</b>	<b>Group and Company 2008 US\$M</b>
<b>Current tax</b>		
Current charge on profits/(losses) for the period	(25)	(33)
Adjustments in respect of previous periods	(2)	(2)
<b>Total current tax charge</b>	<b>(27)</b>	<b>(35)</b>
<b>Deferred tax</b>		
Origination and reversal of temporary differences	7	(19)
Current year tax losses	(18)	(18)
Adjustments in respect of previous periods	(234)	691
FX movement on losses carried forward	106	(105)
Share-based payments	62	(79)
<b>Total deferred tax (charge)/credit</b>	<b>(77)</b>	<b>470</b>
<b>Income tax (charge)/credit</b>	<b>(104)</b>	<b>435</b>

Current tax of US\$Nil (2008: US\$Nil) and deferred tax of US\$102M (2008: US\$ (150M)) were debited directly to equity. Further information about deferred income tax is presented in Note 11.

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**10. Current tax assets (continued)**

The income tax (charge)/credit for the year can be reconciled to the profit per the income statement as follows:

	<b>Group 2009 US\$M</b>	<b>Group 2008 US\$M</b>
Profit/ (loss) before tax	866	(2,664)
Profit/ (loss) before tax multiplied by the UK statutory rate of corporation tax at the rate of 28% (2008: 28.5%)	(243)	759
Increase/(decrease) in income tax credit resulting from:		
Other permanent differences	11	(60)
Unrelievable foreign tax	(15)	(29)
Effect of different tax rates of operations/subsidiaries operating in other jurisdictions	(5)	(19)
Adjustments to current tax in respect of previous periods	(2)	(2)
Adjustments to deferred tax in respect of previous periods	(18)	(18)
Effect on deferred tax resulting from changes to tax rates	-	(12)
FX movement on losses carried forward	106	(105)
Share-based payments	62	(79)
<b>Income tax (charge)/credit</b>	<b>(104)</b>	<b>435</b>

**11. Deferred taxes**

Deferred taxes are calculated on all temporary differences under the liability method using an effective tax rate of 28% (2008: 28%). The UK corporation tax rate was reduced from 30% to 28% with effect from 1 April 2008.

The Company operates in a number of jurisdictions. Consequently, the overall rate of future taxes is expected to be a blended rate which is reviewed annually.

	<b>Group and Company 2009 US\$M</b>	<b>Group and Company 2008 US\$M</b>
Deferred tax liabilities	(109)	(23)
Deferred tax assets	920	808
<b>Net position</b>	<b>811</b>	<b>785</b>
Balance at 1 January, net position	785	464
(Debit)/credit to income for the year	(183)	575
Exchange differences	107	(104)
Movement through shareholders' equity	102	(150)
<b>Balance at 31 December, net position</b>	<b>811</b>	<b>785</b>



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**11. Deferred taxes (continued)**

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

<b>Deferred tax assets</b>	<b>Group and Company 2009 US\$M</b>	<b>Group and Company 2008 US\$M</b>
Share-based compensation	284	170
Decelerated tax depreciation	25	11
Other short term temporary differences	11	8
Unpaid interest	101	28
Tax losses	499	591
<b>At end of the year</b>	<b>920</b>	<b>808</b>

<b>Deferred tax liabilities</b>	<b>Group and Company 2009 US\$M</b>	<b>Group and Company 2008 US\$M</b>
Other short term temporary differences	(11)	-
Pensions and other post-retirement benefits	(98)	(23)
<b>At end of the year</b>	<b>(109)</b>	<b>(23)</b>

The deferred tax charge/(credit) in the income statement comprise the following temporary differences:

	<b>Group and Company 2009 US\$M</b>	<b>Group and Company 2008 US\$M</b>
Share-based compensation	(12)	68
Decelerated tax depreciation	(14)	(17)
Other provisions	-	1
Other short term temporary differences	8	12
Unpaid interest	(73)	(28)
Pensions and other post-retirement benefits	75	85
Deferred tax impact on losses carried forward	93	(591)
<b>Total deferred tax charge / (credit) in the income statement</b>	<b>77</b>	<b>(470)</b>

With effect from 1 April 2008, the rate of UK corporation tax was changed to 28%, see note 10.

Deferred tax assets are recognised on deductible temporary differences, tax losses carried forward and tax credits only to the extent that realisation of the related tax benefit is probable. The Group has deferred tax impact on losses of US\$499M (2008: US\$591M) to carry forward against future taxable income.

The extent to which deferred tax assets can be recognised is dependent upon the availability of future taxable profits at the time the existing deductible temporary differences reverse. The analysis of the deferred tax assets is shown above. The total amount of deferred tax assets is considered recoverable as the Group is expected to receive the benefit of any reversal of the deductible temporary differences, either against future taxable profits or by surrendering tax losses as group relief. The Group will receive full consideration for any group relief surrendered.

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12. Securities borrowed, lent and subject to resale/repurchase agreements

	Group and Company 2009 US\$M	Group and Company 2008 US\$M
<b>Securities borrowed or purchased under agreements to resell</b>		
Securities purchased under resale agreements and securities borrowing transactions	8,183	2,517
Deposits paid for securities purchased under resale agreements and securities borrowing transactions	33,533	41,146
<b>Securities purchased under resale agreements and securities borrowing transactions</b>	<b>41,716</b>	<b>43,663</b>
	Group and Company 2009 US\$M	Group and Company 2008 US\$M
<b>Securities lent or sold under agreements to repurchase</b>		
Securities sold under repurchase agreements and securities lending transactions	5,249	1,734
Deposits received for securities sold under repurchase agreements and securities lending transactions	42,131	32,627
<b>Securities sold under repurchase agreements and securities lending transactions</b>	<b>47,380</b>	<b>34,361</b>

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

Resale and repurchase agreements represent collateralised financing transactions used to earn net interest income, increase liquidity or facilitate trading activity. These instruments are collateralised principally by government securities and money market instruments and have terms ranging from overnight to open with no stated maturity, which is payable on demand. The Group monitors the fair value of securities received or delivered. For securities purchased under resale agreements, the 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 Group receives cash or securities as collateral in an amount generally in excess of the market value of securities lent. The Group monitors the market value of securities borrowed and securities lent on a daily basis and additional collateral is obtained as necessary.

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

	Group 2009 US\$M	Group 2008 US\$M	Company 2009 US\$M	Company 2008 US\$M
<b>Trading financial assets at fair value through profit or loss</b>				
Debt securities	28,079	32,329	28,083	32,871
Equity securities	34,122	10,201	34,122	10,201
Derivative instruments	12,023	35,057	14,141	35,057
<b>Trading financial assets at fair value through profit or loss</b>	<b>74,224</b>	<b>77,587</b>	<b>76,346</b>	<b>78,129</b>
<b>Trading financial liabilities at fair value through profit or loss</b>				
Debt securities	27,225	11,594	27,225	11,594
Equity securities	8,351	9,094	8,351	9,094
Derivative instruments	13,642	33,941	13,524	33,832
<b>Trading financial liabilities at fair value through profit or loss</b>	<b>49,218</b>	<b>54,629</b>	<b>49,100</b>	<b>54,520</b>

Debt securities primarily consist of treasury bills, government debt instruments and corporate debt instruments.

Trading assets and other financial assets designated at fair value through profit or loss include US\$ 36,221M (2008: US\$19,006M) which are encumbered. The transactions in relation to the encumbered assets are conducted under terms that are usual and customary for securities lent, resale agreements or other collateralised borrowings.

The debt instruments at fair value through profit or loss are mainly highly rated government securities and thus exposure to credit risk is minimal.

14. Financial assets and liabilities designated at fair value through profit or loss

	Group 2009 US\$M	Group 2008 US\$M	Company 2009 US\$M	Company 2008 US\$M
<b>Financial assets designated at fair value through profit or loss</b>				
Securities purchased under resale agreements and securities borrowing transactions	96,537	101,734	96,537	101,734
Other financial assets designated at fair value through profit or loss	2,510	2,251	336	2,131
Other loans and receivable	-	2,311	-	66
<b>Total financial assets designated at fair value through profit or loss</b>	<b>99,047</b>	<b>106,296</b>	<b>96,873</b>	<b>103,931</b>

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

All financial assets designated at fair value through profit or loss are exposed to credit risk and the maximum fair value exposure to credit risk as at 31 December 2009 for the Group as well as the Company equals their fair value.

Securities purchased/sold are fully collateralised as at 31 December 2009 and 31 December 2008.

The movement in fair values that is attributable to changes in the credit risk of the financial assets designated at fair value through profit or loss during the period ended 31 December 2009 was a loss of US\$104M for Group and US\$Nil for Company in the income statement (2008: US\$823M for Group and US\$Nil for Company). The remaining changes in fair value are mainly due to movements in market risk.

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14. Financial assets and liabilities designated at fair value through profit or loss (continued)

	Group 2009 US\$M	Group 2008 US\$M	Company 2009 US\$M	Company 2008 US\$M
<b>Financial liabilities designated at fair value through profit or loss</b>				
Securities sold under repurchase agreements and securities lending transactions	84,219	91,532	84,219	91,532
Structured notes	4	4,642	-	2,891
Short term Borrowings	650	-	650	-
Other financial liabilities designated at fair value through profit or loss	625	221	350	65
<b>Total financial liabilities designated at fair value through profit or loss</b>	<b>85,498</b>	<b>96,395</b>	<b>85,219</b>	<b>94,488</b>

The financial instruments designated at fair value through the profit or loss were elected because the adoption of fair value aligns profit or loss recognition with the basis on which positions are risk managed. Positions are marked to market daily and are risk managed on this basis using market-recognised valuation methodologies.

The carrying amount is US\$109M higher than the amount Group and Company would be contractually required to pay at maturity to the holder of these financial liabilities (2008: US\$120M higher (Group and Company)).

15. Financial assets available-for-sale

	Group and Company 2009 US\$M	Group and Company 2008 US\$M
<b>Financial assets available-for-sale</b>		
Equity securities available-for-sale	27	25
<b>Total securities available-for-sale</b>	<b>27</b>	<b>25</b>
Other	9	5
<b>Total financial assets available-for-sale</b>	<b>36</b>	<b>30</b>

Equity securities includes investments in non-marketable exchanges and financial clearing houses whereby the Group is not required to hold shares as part of its membership, for which the Group has neither significant influence nor control over the investee. These securities are held at fair value with any unrealised gain or loss taken through equity.

Other includes investments in non-marketable exchanges and financial clearing houses whereby the Group is required to hold shares as part of its membership, for which the Group has neither significant influence nor control over the investee.

These securities are held at fair value with any unrealised gain or loss taken through equity.

	Group and Company		
	Amortised cost US\$M	Gross unrealised gains US\$M	Fair Value US\$M
Equity securities available-for-sale			
31 December 2009	-	27	27
31 December 2008	-	25	25

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16. Other assets and other liabilities

	Group 2009 US\$M	Group 2008 US\$M	Company 2009 US\$M	Company 2008 US\$M
<b>Other assets</b>				
Cash collateral on derivative instruments	2,125	4,857	2,125	4,857
Brokerage receivables (Note 18)	35,355	45,527	35,355	45,527
Interest and fees receivable	1,193	1,901	1,193	1,901
Prepaid expenses	65	55	65	55
Other	708	555	708	511
<b>Total other assets</b>	<b>39,446</b>	<b>52,895</b>	<b>39,446</b>	<b>52,851</b>

Total other assets are mainly due within one year.

	Group 2009 US\$M	Group 2008 US\$M	Company 2009 US\$M	Company 2008 US\$M
<b>Other liabilities</b>				
Cash collateral on derivative instruments	5,460	9,813	5,461	9,813
Derivative instruments used for hedging	3	19	3	19
Brokerage payables (Note 18)	29,020	49,870	29,020	49,870
Interest and fees payable	1,006	1,523	1,006	1,523
Other	1,950	2,161	2,192	2,154
<b>Total other liabilities</b>	<b>37,439</b>	<b>63,386</b>	<b>37,682</b>	<b>63,379</b>

17. Other loans and receivables

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

	Group and Company 2009 US\$M	Group and Company 2008 US\$M
Bank	1,483	1,483
<b>United Kingdom</b>	<b>1,483</b>	<b>1,483</b>
<b>Total other loans and receivables</b>	<b>1,483</b>	<b>1,483</b>

All other loans and receivables are due after 1 year.

18. Brokerage receivables and brokerage payables

	Group and Company 2009 US\$M	Group and Company 2008 US\$M
<b>Brokerage receivables</b>		
Due from customers	19,604	31,440
Due from banks, brokers and dealers	15,751	14,087
<b>Total brokerage receivables</b>	<b>35,355</b>	<b>45,527</b>

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18. Brokerage receivables and brokerage payables (continued)

	Group and Company 2009 US\$M	Group and Company 2008 US\$M
<b>Brokerage payables</b>		
Due to customers	20,324	34,460
Due to banks, brokers and dealers	8,696	15,410
<b>Total brokerage payables</b>	<b>29,020</b>	<b>49,870</b>

Brokerage receivables and payables include transactions in financial instruments purchased from and sold to customers, banks, brokers and dealers which have not settled as at the reporting date, receivables and payables from the Prime Brokerage business and cash collateral from futures trading.

19. Investments in subsidiary undertakings

The following tables set forth the significant subsidiaries the Group owns, directly or indirectly as at 31 December 2009 and 31 December 2008:

Equity Held	Subsidiaries Direct holdings:	Domicile	Currency held	Capital In US\$ million
100%	Credit Suisse Client Nominees (UK) Limited	United Kingdom	US\$	-
100%	Credit Suisse First Boston Trustees Limited	United Kingdom	US\$	-
100%	Credit Suisse First Boston PF (Europe) Limited	United Kingdom	US\$	-

Also refer to Note 34 for details on special purpose entities.

20. Goodwill

	Group and Company 2009 US\$M	Group and Company 2008 US\$M
<b>Cost</b>		
Balance at beginning of period	7	8
Foreign currency translation impact	1	(1)
<b>Balance at end of period</b>	<b>8</b>	<b>7</b>
<b>Accumulated impairment losses</b>		
Balance at beginning of period	-	-
Foreign currency translation impact	-	-
<b>Balance at end of period</b>	<b>-</b>	<b>-</b>
<b>Net book value</b>	<b>8</b>	<b>7</b>

All goodwill is held by branches of the Company and denominated in Euros. This is translated to US\$ at the reporting date.

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21. Property and Equipment

Group and Company	Leasehold land and buildings US\$M	Leasehold Improvements US\$M	Internally Developed Software US\$M	Computer equipment US\$M	Office equipment US\$M	Total US\$M
<b>2009</b>						
<b>Cost:</b>						
Balance at beginning of period	52	80	-	13	16	161
Additions	-	1	119	-	-	120
Disposals	(52)	(31)	(119)	-	-	(202)
Other movements	-	(4)	-	3	(1)	(2)
<b>Balance at end of period</b>	<b>-</b>	<b>46</b>	<b>-</b>	<b>16</b>	<b>15</b>	<b>77</b>
<b>Accumulated depreciation</b>						
Balance at beginning of period	10	48	-	10	8	76
Depreciation for the year	1	6	-	1	2	10
Disposals	(11)	(31)	-	-	-	(42)
Other movements	-	(4)	-	2	2	-
<b>Balance at end of period</b>	<b>-</b>	<b>19</b>	<b>-</b>	<b>13</b>	<b>12</b>	<b>44</b>
<b>Carrying amount</b>	<b>-</b>	<b>27</b>	<b>-</b>	<b>3</b>	<b>3</b>	<b>33</b>

Group and Company	Leasehold land and buildings US\$M	Leasehold Improvements US\$M	Internally Developed Software US\$M	Computer equipment US\$M	Office equipment US\$M	Total US\$M
<b>2008</b>						
<b>Cost:</b>						
Balance at beginning of period	52	80	9	15	17	173
Additions	-	-	-	-	1	1
Disposals	-	-	(9)	(2)	-	(11)
Other movements	-	-	-	-	(2)	(2)
<b>Balance at end of period</b>	<b>52</b>	<b>80</b>	<b>-</b>	<b>13</b>	<b>16</b>	<b>161</b>
<b>Accumulated depreciation</b>						
Balance at beginning of period	9	38	-	12	6	65
Depreciation for the year	1	10	-	-	2	13
Disposals	-	-	-	(2)	-	(2)
Other movements	-	-	-	-	-	-
<b>Balance at end of period</b>	<b>10</b>	<b>48</b>	<b>-</b>	<b>10</b>	<b>8</b>	<b>76</b>
<b>Carrying amount</b>	<b>42</b>	<b>32</b>	<b>-</b>	<b>3</b>	<b>8</b>	<b>85</b>

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

On 11 November 2009, the Company completed a sale and leaseback transaction. Refer to note 33 on lease commitments.

No interest has been capitalised within property and equipment (2008:US\$Nil).

No significant impairment charges were recorded in 2009 and 2008.

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22. Deposits

	Group and Company 2009 US\$M	Group and Company 2008 US\$M
<b>Deposits</b>		
Non-interest bearing demand deposits	2,196	2,089
Interest-bearing demand deposits	131	32
Time deposits	-	6
<b>Total deposits</b>	<b>2,327</b>	<b>2,127</b>
of which due to banks	2,213	2,120
of which customers deposits	114	7

23. Short-term borrowings

	Group 2009 US\$M	Group 2008 US\$M	Company 2009 US\$M	Company 2008 US\$M
<b>Short term borrowings</b>				
from banks	38,973	43,372	38,973	43,371
<b>Total short term borrowings</b>	<b>38,973</b>	<b>43,372</b>	<b>38,973</b>	<b>43,371</b>

24. Provisions

Group and Company	Property 2009 US\$M	Litigation 2009 US\$M	Total 2009 US\$M	Total 2008 US\$M
<b>Balance at beginning of period</b>	<b>5</b>	<b>5</b>	<b>10</b>	<b>10</b>
Increase in provisions recognised in the consolidated statements of income	-	-	-	4
Provision utilised	(2)	-	(2)	(2)
Foreign currency translation impact	-	-	-	(2)
<b>Balance at end of period</b>	<b>3</b>	<b>5</b>	<b>8</b>	<b>10</b>

Included in the property provision are reinstatement costs of the Milan office (US\$2.4M), the Seoul Hanwha building (US\$0.5M) and the Amsterdam office (US\$0.5M).

The litigation provision relates to legal cases that the Company is defending. The exact timing of outflow of economic benefits cannot be ascertained at 31 December 2009.



**CREDIT SUISSE SECURITIES (EUROPE) LIMITED**  
**NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2009**

**25. Long term debt**

	<b>Group and Company 2009 US\$M</b>	<b>Group and Company 2008 US\$M</b>
<b>Long term debt</b>		
Subordinated debt	2,721	2,383
<b>Total long term debt</b>	<b>2,721</b>	<b>2,383</b>

At 31 December 2009 subordinated debt totals US\$2,721M (2008: US\$2,383M). This comprised of US\$1,483M advanced by Credit Suisse First Boston Finance BV and US\$900M advanced by Credit Suisse PSL, GmbH ('CSPSL GmbH') (earlier known as Credit Suisse (International) Holdings AG), along with interest capitalised amounting to US\$338M.

US\$1,187M was borrowed under an agreement dated 27 June 2008 from Credit Suisse First Boston Finance BV, a fellow company under common control. Under the terms of the loan, the Company may repay, in whole or in part, any amounts outstanding upon giving prior written notice to the lender and FSA. The earliest date at which the Company may make a repayment is December 2013. Interest on subordinated debt is payable at a fixed rate of 9.49% annum. Under the facility, the loan and any interest outstanding thereon is subordinated in right of repayment to all other indebtedness and liabilities of the Company. The maturity of the loan is 27 June 2038.

On 2 September 2008, the Company borrowed a further US\$296M from Credit Suisse First Boston Finance BV, with interest on subordinated debt payable at a fixed rate of 9.83% annum. Under the terms of the loan, the Company may repay, in whole or in part, any amounts outstanding upon giving prior written notice to the lender and FSA. The earliest date at which the Company may make a repayment is December 2013. The maturity of the loan is 27 June 2038.

On 23 September 2008, US\$200M was advanced by CSPSL GmbH, under a subordinated loan facility agreement for US\$1,500M dated 14 December 2007. Interest on this subordinated debt is payable at a rate of 3 months LIBOR plus 900 basis points per annum. The Company borrowed a further US\$700M under this facility on 9 October 2008. Interest on this additional subordinated debt is payable at a rate of 3 months LIBOR plus 1,050 basis points per annum. The loan facility dated 14 December 2007, along with all outstanding drawings, was transferred from Credit Suisse (International) Holdings AG to Credit Suisse PSL GmbH on 1 December 2009.

CREDIT SUISSE SECURITIES (EUROPE) LIMITED  
 NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2009

26. Accumulated other comprehensive income

Group and Company	Unrealised gains/ (losses) on cash flow hedges	Cumulative translation adjustment	Unrealised gains/ (losses) on financial assets available for sale	Accumulated other comprehensive income
2009	US\$M	US\$M	US\$M	US\$M
Balance at beginning of period	(15)	(190)	25	(180)
Increase/(decrease)				
Foreign exchange translation differences	-	39	-	39
Net loss on hedges of net investments in foreign entities taken to equity	-	(94)	-	(94)
Net gain on financial assets available-for-sale	-	-	2	2
Net gain on cash flow hedging instruments transferred to income statement	15	-	-	15
Balance at end of period	-	(245)	27	(218)

CREDIT SUISSE SECURITIES (EUROPE) LIMITED  
 NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2009

26. Accumulated other comprehensive income (continued)

Group and Company	Unrealised gains/ (losses) on cash flow hedges	Cumulative translation adjustment	Unrealised gains/ (losses) on financial assets available for sale	Accumulated other comprehensive income
2008	US\$M	US\$M	US\$M	US\$M
Balance at beginning of period	-	(39)	-	(39)
Increase/(decrease)				
Foreign exchange translation differences	-	(155)	-	(155)
Net gain on hedges of net investments in foreign entities taken to equity	-	4	-	4
Net gain on financial assets available-for-sale	-	-	25	25
Net loss on cash flow hedging instruments transferred to income statement	(15)	-	-	(15)
Balance at end of period	(15)	(190)	25	(180)

CREDIT SUISSE SECURITIES (EUROPE) LIMITED  
 NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2009

27. Called-up share capital

Authorised

	Group and Company 2009 US\$M	Group and Company 2008 US\$M
<b>Equity</b>		
3,550,000,000 ordinary voting shares of US\$1 each	3,550	3,550
<b>Total authorised share capital</b>	<b>3,550</b>	<b>3,550</b>

Allotted, called up and fully paid

	Group and Company 2009 US\$M	Group and Company 2008 US\$M
3,527,300,000 ordinary voting shares of US\$1 each	3,527	3,527
Capital contribution	5,390	5,390
<b>Total called-up share capital</b>	<b>8,917</b>	<b>8,917</b>

The holders of ordinary shares carry voting rights and the right to receive dividends. There was an increase in ordinary voting shares in 2008 to support the capital resources and regulatory capital capacity when large losses were sustained during the highly volatile falling market environment in late 2008.

The holders of ordinary shares carry voting rights and the right to receive dividends.

No additional capital contribution was made in either the current or previous year by Credit Suisse Investment Holdings (UK).

CREDIT SUISSE SECURITIES (EUROPE) LIMITED  
 NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2009

**28. Retirement Benefit Obligations**

**Retirement Benefit Obligations**

The Company has established a number of pension schemes covering substantially all employees. The most material pension arrangement is operated in the UK, where a funded, final salary defined benefit plan is operated. The assets of this plan are held independently of the Company's assets in separate trustee administered funds. Smaller defined benefit plans are operated elsewhere, consisting of an unfunded plan in Germany and a funded plan in Korea. A full actuarial valuation is completed by independent actuaries, for these schemes, every three years using the projected unit credit method and updated for each reporting date. The Company does not contribute to any other post-retirement defined benefit plans.

The following disclosures contain the balances for the entire defined benefit plan sponsored by the Company, of which the Company is one of many participants, who are all related parties under common control. The Company accounts for the entire plan using defined benefit accounting.

All expenses arising from retirement benefit obligations are recorded in the income statement under 'Compensation and benefits'.

**Defined benefit pension and other post-retirement defined benefit plans**

	<b>Group and Company</b>	<b>Group and Company</b>
	<b>2009</b>	<b>2008</b>
	<b>US\$M</b>	<b>US\$M</b>
Current service costs on benefit obligation	5	10
Interest costs on benefit obligation	61	78
Expected return on plan assets	(85)	(112)
Prior service cost	-	1
Amortisation of:		
unrecognised losses	2	3
<b>Net periodic pension costs</b>	<b>(17)</b>	<b>(20)</b>
Curtailment losses/(gains)	-	(2)
<b>Total periodic pension costs</b>	<b>(17)</b>	<b>(22)</b>

CREDIT SUISSE SECURITIES (EUROPE) LIMITED  
 NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2009

**28. Retirement Benefit Obligations (continued)**

The following table shows the changes in the defined benefit obligation and the fair value of plan assets during 2009 and 2008, and the amounts included in the Statement of Financial Position for the Company's defined benefit pension and other post-retirement defined benefit plans as at 31 December 2009 and 2008 respectively:

	<b>Group and Company 2009 US\$M</b>	<b>Group and Company 2008 US\$M</b>
Defined benefit obligation – 1 January	905	1,403
Current Service cost	5	10
Interest cost	61	78
Plan amendments	-	1
Curtailments	-	(2)
Actuarial losses	144	(219)
Benefit payments	(16)	(19)
Other economic events	1	-
Exchange rate losses/(gains)	109	(347)
<b>Defined benefit obligation – 31 December</b>	<b>1,209</b>	<b>905</b>
Fair value of plan assets – 1 January	1,019	1,376
Expected return on plan assets	85	112
Actuarial gains/losses on plan assets	(153)	(209)
Actual return on plan assets	(68)	(97)
Contributions	140	151
Benefit payments	(16)	(19)
Exchange rate gains/(losses)	116	(392)
<b>Fair value of plan assets – 31 December</b>	<b>1,191</b>	<b>1,019</b>
<b>Total amount recognised 31 December</b>		
Funded status of the plan	(18)	114
Unrecognised		
Net actuarial losses	434	169
Exchange rate losses/(gains)	12	(42)
<b>Net amount recognised - 31 December</b>	<b>428</b>	<b>241</b>

The Company has agreed the valuation and funding of the UK defined benefit pension plan with the Pension Fund Trustees as at 31 December 2008. Lump sum contributions were paid by the Company of GBP2M in April 2009 and GBP 80M in December 2009. Additional contributions are due to be paid as follows: GBP 90M by 31 January 2011, GBP 50M by 31 January 2012, GBP 51M by 31 January 2013, GBP 3M payable by 31 January each year from 2011 to 2018 and finally GBP 3M by 31 December 2018. In addition to these amounts, contributions will be paid to cover administrative expenses, administration rebates and death in service pensions.

CREDIT SUISSE SECURITIES (EUROPE) LIMITED  
 NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2009

**28. Retirement Benefit Obligations (continued)**

During 2009, the Company recognised USD 26M through the income statement for monies received/receivable from the participating entities for their portion of the lump sum contribution of GBP 80M paid by the Company in December 2009.

At 31 December 2009 and 2008 the pension fund plan assets hold no material amounts of CS group debt and equity securities.

Movement in the liability recognised in the Statement of Financial Position:

	<b>Group and Company 2009 US\$M</b>	<b>Group and Company 2008 US\$M</b>
At 1 January	241	164
Exchange difference	31	(96)
Total expenses (as above)	17	22
Other economic events	(1)	-
Contributions paid	140	151
<b>At 31 December</b>	<b>428</b>	<b>241</b>

**Assumptions**

The weighted average assumptions used in the measurement of the benefit obligation and net periodic pension cost for the international defined pension plans as at 31 December were as follows:

31 December in %	<b>Group and Company 2009</b>	<b>Group and Company 2008</b>
<b>Benefit obligations</b>		
Discount rate	6.00	6.25
Inflation	3.50	2.85
Pension increases *	3.40	2.85
Salary increases	4.75	4.10
<b>Net periodic pension cost</b>		
Discount rate	6.25	5.80
Salary increases	4.10	4.95
Expected long-term rate of return on plan assets	7.75	7.75

\* Pension earned pre 6 April 1997 are subject to pension increases on a discretionary basis.

CREDIT SUISSE SECURITIES (EUROPE) LIMITED  
 NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2009

**28. Retirement Benefit Obligations (continued)**

**Mortality Assumptions**

The assumptions for life expectancy in the 2009 benefit obligation calculations pursuant to IAS 19 are based on '00' series year of birth mortality tables with a scaling factor of 85% projected to date with allowance for the medium cohort and then projected forwards with allowance for the medium cohort but subject to an underpin to longevity improvement rates of 0.5% p.a. for females and 1% p.a. for males.

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

	2009	2008
<b>Life expectancy at age 60 for current pensioners aged 60 (years)</b>		
- Males	28.5	28.4
- Females	30.4	30.3
<b>Life expectancy at age 60 for future pensioners currently aged 40 (years)</b>		
- Males	30.7	30.6
- Females	31.6	31.4

**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 US\$M	Increase %	Decrease US\$M	Decrease %
<b>Benefit obligation</b>				
One-percentage point change				
- Discount rate	348	29	266	(22)
- Inflation	284	24	228	(19)
- Salary increases	18	1	17	(1)
1 year to life expectancy at 60	24	2	24	(2)
<b>Total periodic pension cost</b>				
One-percentage point change				
- Expected return on assets	11	64	11	(64)

**Plan assets and investment strategy**

The Company's defined benefit pension plan employs a total return investment approach, whereby a diversified mix of equities, fixed income investments and alternative investments is used to maximise the long term return of plan assets while incurring a prudent level of risk. The intention of this strategy is to outperform plan liabilities over the long run in order to minimise plan expenses. 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. Derivatives may be used to take market exposure, but are not used to leverage the portfolio beyond the market value of the underlying investments. Investment risk is measured and monitored on an ongoing basis through annual liability measurements, periodic asset/liability studies and quarterly investment portfolio reviews. To limit investment risk, the Company's pension plans follow defined strategic asset allocation guidelines. Depending on the market conditions, these guidelines are even more limited on a short-term basis.



**CREDIT SUISSE SECURITIES (EUROPE) LIMITED**  
**NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2009**

**28. Retirement Benefit Obligations (continued)**

The Company 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 overall expected rate of return on assets is then derived by aggregating the expected return for each asset class over the target asset allocation for the Fund at the 31 December 2009.

	2009		2008	
	Fair value US\$M	% of total fair value of scheme assets	Fair value US\$M	% of total fair value of scheme assets
Equity securities	990	83.1	488	47.9
Debt securities	190	15.9	258	25.3
Alternative Investments (primarily swaps)	(125)	(10.4)	271	26.6
Cash	136	11.4	2	0.2
<b>Fair value of plan assets</b>	<b>1,191</b>	<b>100.0</b>	<b>1,019</b>	<b>100.0</b>

Balances and amounts for the current and previous periods for which the Group prepared IFRS accounts are as follows:

31 December	Group and Company				
	2009	2008	2007	2006	2005
Defined benefit obligation	1,209	905	1,403	1,395	1,072
Fair value of plan assets	1,191	1,019	1,376	1,003	804
Funded status, surplus/(deficit)	(18)	114	(27)	(392)	(268)
Experience gains / (losses) on plan liabilities <sup>1)</sup>	60	(44)	23	(48)	49
Experience gains/(losses) on plan assets	(153)	(209)	(16)	30	80

1) This item consists of (gains)/losses in respect of liability experience only and excludes any changes in liabilities in respect of changes to the actuarial assumptions used.

**Defined Contribution Pension Plans**

The Company also contributes to various defined contribution pensions primarily in the United Kingdom. The contributions in these plans during 2009 and 2008 were US\$56M and US\$67M respectively.

# CREDIT SUISSE SECURITIES (EUROPE) LIMITED

## NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2009

### 29. Employee share based compensation and other compensation benefits

#### 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, share-based compensation and other compensation benefits is solely at the discretion of the Company.

Compensation and benefits for a given year include fixed components, such as salaries, benefits and the expense from share-based and other deferred compensation from prior-year awards, and a variable component. The variable component reflects the performance-based and retention compensation for the current year. The portion of the variable compensation for the current year deferred through share-based and other awards is expensed in future periods and subject to vesting and other conditions.

Share-based compensation is an important part of the overall compensation package for selected employees and senior executives. Share-based compensation is designed to promote employees' focus on long-term performance, align the interests of employees and shareholders and foster retention. The majority of share-based compensation is granted as part of the annual incentive performance bonus subsequent to the fiscal year to which the incentive performance bonus relates. Share-based compensation is generally subject to restrictive features such as vesting, forfeiture and blocking rules.

Total compensation expense for equity-settled share based plans recognised during 2009 and 2008 was US\$246m and US\$428m respectively. The average weighted fair value of awards granted in 2009 was CHF 30.68 (2008: CHF65.59).

#### ***Incentive Share Unit ('ISU') / Scaled Incentive Share Unit ('SISU')***

Since 2007, the Company has granted ISUs as the main form of share-based deferred variable compensation. An ISU is a unit that is similar to shares, but offers additional upside depending on the development of the CSG share price. For each ISU granted, the employee will receive at least one CSG share (ISU Base Unit) and could receive additional CSG shares (ISU Leverage Unit) if the monthly average CSG share price increases during the three-year contractual term of the award as compared to the baseline CSG share price determined on the grant date. The number of ISU Leverage Units to be converted to CSG shares will be determined by multiplying the total number of ISU Base Units granted, less forfeitures, by the leverage payout ratio defined in the terms and conditions of the award. Each ISU Base Unit will vest at a rate of one-third of a share per year over three years, with the ISU Leverage Units vesting on the third anniversary of the grant date, depending on the development of the CSG share price. Settlement of ISUs is subject to continued employment at the Company and certain retirement arrangements.

In 2010, the Company has granted SISU awards to certain employees. SISUs are similar to the ISUs with a new element that increases or decreases the value of any additional shares based on the CSG's average Return on Equity ('ROE'). As with ISUs, SISUs deliver at least one CSG share but over a four-year period. Additional shares may be due if the average CSG share price increases over a four-year period. SISUs contain a further feature that link the final number of additional shares to an additional factor. If the CSG's average ROE over the four-year period is higher than a pre-set target, the number of additional shares calculated by reference to the average CSG share price increase will be adjusted upwards, and if it is below the target, the number of additional shares will decrease.

CREDIT SUISSE SECURITIES (EUROPE) LIMITED  
 NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2009

**29. Employee share based compensation and other compensation benefits (continued)**

Movements in the number of ISUs outstanding were as follows:

ISU Awards	Group and Company 2009 Millions		Group and Company 2008 Millions	
	Base	Leverage	Base	Leverage
As at 1 January	9.84	10.61	4.20	4.20
Granted	3.27	3.27	7.15	7.15
Share transferred in/out	0.23	0.23	0.50	0.49
Delivered	(7.21)	-	(1.62)	-
Forfeited	(0.27)	(1.66)	(0.39)	(1.23)
<b>As at 31 December</b>	<b>5.86</b>	<b>12.45</b>	<b>9.84</b>	<b>10.61</b>

***Performance Incentive Plan units ('PIPs')***

As part of its annual incentive performance bonus process for 2004 and 2005, the Company granted PIP share units during 2005 and 2006, respectively. PIP units are long-term retention incentive awards requiring continued employment with the Company, subject to restrictive covenants and cancellation provisions, and vest evenly over a five-year period. Each PIP unit will settle 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 will determine the multiplier, ranging between zero and three, for the final number of PIP units. The market conditions will determine the number of CSG shares that each PIP unit will convert into at settlement.

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

	Group and Company 2009 Millions	Group and Company 2008 Millions
<b>PIP Units</b>		
As at 1 January	2.58	2.82
Granted	-	-
Shares transferred out	-	(0.23)
Delivered	-	-
Forfeited	(0.02)	(0.01)
<b>As at 31 December</b>	<b>2.56</b>	<b>2.58</b>

CREDIT SUISSE SECURITIES (EUROPE) LIMITED  
 NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2009

**29. Employee share based compensation and other compensation benefits (continued)**

***Share Awards***

The Company's share-based compensation as part of the yearly discretionary performance bonus in prior years included three different types of share awards: phantom shares, LPA and special awards. These share awards entitle the holder to receive one registered CSG share subject to continued employment with the Company, restrictive covenants and cancellation provisions, and generally vest between zero and three years. In 2007, the Company introduced the ISU share-based plan described above to replace the PIP, phantom share and LPA awards granted in prior years. Phantom shares vest in three equal installments on each of the first, second and third anniversaries of the grant date and convert to registered CSG shares. LPAs vest in full on the third anniversary of the grant. Special awards are generally CSG shares, which may be granted to new employees. These special awards may contain vesting conditions, depending on the terms of employment.

Movements in the number of share awards outstanding were as follows:

	<b>Group and Company 2009 Millions</b>	<b>Group and Company 2008 Millions</b>
<b>Share awards excluding PIP units &amp; ISU award</b>		
As at 1 January	3.25	6.07
Granted	1.68	1.02
Shares Transferred Out	(0.09)	(0.77)
Delivered	(2.17)	(2.84)
Forfeited	(0.05)	(0.23)
<b>As at 31 December</b>	<b>2.62</b>	<b>3.25</b>

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

As part of the 2008 annual compensation process, the Company awarded employees with a corporate title of managing director or director the majority of the deferred portion of their variable compensation in the form of 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 division. 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.

The contractual term of the PAF award is eight years. 66.7% of the PAF awards were fully vested upon grant and attributed to services performed in 2008 and 33.3% of the PAF awards vested over the first three months of 2009. 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. Total compensation expense for PAF recognised during 2009 was US\$127M (2008: US\$89M).

CREDIT SUISSE SECURITIES (EUROPE) LIMITED  
 NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2009

**29. Employee share based compensation and other compensation benefits (continued)**

***Cash Retention Awards ('CRA')***

In connection with the 2008 compensation awards, a portion of the variable compensation was granted in the form of Cash Retention Awards (CRA). These CRA payments, which were made in the first quarter of 2009, are subject to vesting ratably over a two-year period and to other conditions and any unvested CRA will have to be repaid if a claw-back event, such as voluntary termination of employment, occurs. Total compensation expense for CRA recognised during 2009 was US\$205M (2008: US\$ Nil).

***Adjustable Performance Plan Awards ('APPAs')***

APPAs are a new form of deferred cash award granted in 2010, subject to a three-year, pro-rata vesting schedule. In the event that the division in which the employee worked at the time of grant generates profits, outstanding awards will be adjusted upward on an annual basis using the CSG's ROE in the respective year as a multiplier. However, should a business area in which an employee worked at the time of grant incur a loss (before charges for current year variable compensation and tax) outstanding APPAs held by employees of that business area will be adjusted downwards. Expense for the APPA award will be recognised over 3 years from year 2010 onwards.

***Share options***

Stock option awards granted in or before January 2003 for service provided in prior years were fully expensed during the year of service. These stock option awards have a contractual term of one to five years and expire from seven to ten years from the grant date.

Under the CSG Master Share Plan, as of January 2004, options over CSG Registered Shares are only granted to employees located in Italy. The exercise price is the higher of the market value of CSG Registered Shares on date of grant or the average share price of CSG Registered Shares for one month prior to and including the date of grant. Options vest in three equal instalments commencing from the first anniversary of the grant date and are exercisable as they vest; the options have a contractual option term of ten years. The Group has no legal or constructive obligation to repurchase or settle the options in cash.

Movements in the number of share options outstanding are as follows:

	2009		2008	
	in Units	Weighted average exercise price	in Units	Weighted average exercise price
At 1 January	92,443	CHF 52.18	97,639	CHF 52.18
Granted	-	-	-	-
Exercised	-	-	(5,196)	CHF 47.86
Forfeited	-	-	-	-
<b>At 31 December</b>	<b>92,443</b>	<b>CHF 52.18</b>	<b>92,443</b>	<b>CHF 52.43</b>

The number of options exercisable as at year end was 92,443 (2008: 86,988). The average weighted exercise price of options exercisable at year end was CHF 52.43 (2008: CHF 51.13). The intrinsic value of vested options outstanding as at year end was US\$ 0.2M (2008: US\$ Nil).

CREDIT SUISSE SECURITIES (EUROPE) LIMITED  
 NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2009

**29. Employee share based compensation and other compensation benefits (continued)**

Share options outstanding at the end of the year were as follows:

	Exercise Price CHF	31 December 2009	31 December 2008
Jan 2004 Options	CHF47.75	15,731	15,731
Jan 2005 Options	CHF48.05	60,345	60,345
Jan 2006 Options	CHF73.06	16,367	16,367
<b>Share options outstanding at the end of the year</b>		<b>92,443</b>	<b>92,443</b>

**30. Related Parties**

The Company is controlled by CSG, its ultimate parent, which is incorporated in Switzerland. The Company's parent company, CS Investment Holdings (UK), who holds all of the voting rights in the undertaking, is incorporated in the UK.

The Company acts primarily in the Investment Banking sector as a financial intermediary for fellow CS group companies in providing investment banking and securities products and services for the Americas, European and Asian regions. The Company acts as one of the main booking entities in the European region for transacting in securities, derivatives and foreign exchange. The Company generally enters into these transactions in the ordinary course of business and these transactions are on market terms that could be obtained from unrelated parties. The Company has extensive transfer pricing policies (revenue sharing and cost plus agreements) to govern the cross-border booking process.

The Company employs the majority of the London based employees and is the sponsoring company for the UK defined benefit pension plan. The Company also holds the main UK leases and service contracts in the UK. The costs associated with these are allocated to fellow CS group companies (see 'Expense receivable from other CS group companies' in note 9) based on detailed cost allocation statistics. The Company generally enters into these transactions in the ordinary course of business and these transactions are on market terms that could be obtained from unrelated parties.

CREDIT SUISSE SECURITIES (EUROPE) LIMITED  
NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2009

30. Related Parties (continued)

a) Related party assets and liabilities

Group Assets	2009		2008	
	Other CS group companies US\$M	Total US\$M	Other CS group companies US\$M	Total US\$M
Cash and due from banks	10,282	10,282	7,780	7,780
Interest-bearing deposits with banks	-	-	9,028	9,028
Securities purchased under resale agreements and securities borrowing transactions	39,401	39,401	35,432	35,432
Trading financial assets at fair value through profit or loss	7,937	7,937	17,924	17,924
Other loans and receivables	1,483	1,483	1,483	1,483
Other assets	8,090	8,090	8,026	8,026
<b>Total assets</b>	<b>67,193</b>	<b>67,193</b>	<b>79,673</b>	<b>79,673</b>
<b>Liabilities</b>				
Deposits	2,189	2,189	2,086	2,086
Securities sold under repurchase agreements and securities lending transactions	23,781	23,781	14,477	14,477
Trading financial liabilities at fair value through profit or loss	7,711	7,711	16,922	16,922
Short term borrowings	38,949	38,949	43,372	43,372
Other liabilities	5,454	5,454	10,941	10,941
Long term debt	2,721	2,721	2,383	2,383
<b>Total liabilities</b>	<b>80,805</b>	<b>80,805</b>	<b>90,181</b>	<b>90,181</b>

CREDIT SUISSE SECURITIES (EUROPE) LIMITED  
NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2009

30. Related Parties (continued)

b) Related party assets and liabilities

Company Assets	2009			2008		
	Other CS group companies	Subsidiaries and SPEs	Total	Other CS group companies	Subsidiaries and SPEs	Total
	US\$M	US\$M	US\$M	US\$M	US\$M	US\$M
Cash and due from banks	10,282	-	10,282	7,780	-	7,780
Interest-bearing deposits with banks	-	-	-	9,028	-	9,028
Securities purchased under resale agreements and securities borrowing transactions	39,401	-	39,401	35,432	-	35,432
Trading financial assets at fair value through profit or loss	7,937	2,118	10,055	17,170	542	17,712
Other loans and receivables	1,483	-	1,483	1,483	-	1,483
Other assets	8,090	-	8,090	8,026	-	8,026
<b>Total assets</b>	<b>67,193</b>	<b>2,118</b>	<b>69,311</b>	<b>78,919</b>	<b>542</b>	<b>79,461</b>
<b>Liabilities</b>						
Deposits	2,189	-	2,189	2,086	-	2,086
Securities sold under repurchase agreements and securities lending transactions	23,781	-	23,781	14,477	-	14,477
Trading financial liabilities at fair value through profit or loss	7,685	26	7,711	16,379	-	16,379
Short term borrowings	38,949	-	38,949	43,372	-	43,372
Other liabilities	5,454	-	5,454	10,941	-	10,941
Long term debt	2,721	-	2,721	2,383	-	2,383
<b>Total liabilities</b>	<b>80,779</b>	<b>26</b>	<b>80,805</b>	<b>89,638</b>	<b>-</b>	<b>89,638</b>



CREDIT SUISSE SECURITIES (EUROPE) LIMITED  
 NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2009

30. Related Parties (continued)

c) Related party revenues and expenses (Group and Company)

Group	Other CS group companies	
	2009 US\$M	2008 US\$M
Interest income	513	1,756
Interest expense	(1,450)	(4,351)
Net interest expense	(937)	(2,595)
Commissions and fee income	66	262
Revenue sharing agreements expense)/income	(571)	107
<b>Net revenues</b>	<b>(1,442)</b>	<b>(2,226)</b>
<b>Total operating expenses</b>	<b>(179)</b>	<b>(282)</b>

d) Related party off balance sheet transactions

Group	Other CS group companies	
	2009 US\$M	2008 US\$M
Other commitments, net	29,878	11,819
<b>Total</b>	<b>29,878</b>	<b>11,819</b>

Company	2009			2008		
	Other CS group companies US\$M	Subsidiaries and SPEs US\$M	Total US\$M	Other CS group companies US\$M	Subsidiaries and SPEs US\$M	Total US\$M
Other commitments, net	29,878	-	29,878	11,819	-	11,819
<b>Total</b>	<b>29,878</b>	<b>-</b>	<b>29,878</b>	<b>11,819</b>	<b>-</b>	<b>11,819</b>

**CREDIT SUISSE SECURITIES (EUROPE) LIMITED**  
**NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2009**

**30. Related Parties (continued)**

**e) Remuneration**

**Remuneration of Directors**

	<b>2009</b>	<b>2008</b>
	<b>US\$'000</b>	<b>US\$'000</b>
Emoluments	6,870	1,192
Long term incentive schemes	39,604	9,434
Compensation for loss of office	-	-
<b>Total</b>	<b>46,474</b>	<b>10,626</b>
Company contributions to defined contribution plan	25	79
<b>Total</b>	<b>46,499</b>	<b>10,705</b>

In 2009 the Company revised the methodology used to calculate the amounts disclosed in the Remuneration of Directors and Key Management Personnel in order to align to CS group disclosures and peers. The revised methodology is based on the amounts accrued in the financial statements for all emoluments and deferred cash awards and on the amounts actually awarded for share based awards for a particular year. This revision does not impact the amounts recognised in the Company's financial statements.

Where directors and key management personnel perform services for a number of companies within the CS group, the total remuneration payable to each director have been apportioned to the respective entities to the extent they were recorded as compensation and benefits expense. Where their cost has been charged through an arm's length service fee in accordance with CS global transfer pricing policy, these legal entity service fees are not considered as remuneration for either directors or key management personnel.

The aggregate value of compensation provided in the accounts for 2009 for Directors was US\$34,783,000 (2008: US\$30,991,000).

Included in the long term incentive schemes is US\$4,381,000 (2008: US\$2,012,000) relating to the expense of cash schemes and the remainder relates to the awarded amounts in connection with share based schemes.

The aggregate of emoluments and amounts accrued under long term incentive schemes provided in the accounts for the highest paid director was US\$11,839,000 (2008: US\$9,668,000). The director was also a member of a defined contribution pension plan and the contribution paid during the year into the plan was US\$11,000 (2008: US\$2,000). During the year the highest paid director received an entitlement to shares under a long term incentive scheme.

Number of Directors and Benefits:

	<b>Number of</b>	<b>Number of</b>
	<b>Directors</b>	<b>Directors</b>
	<b>2009</b>	<b>2008</b>
Retirement benefits are accruing to the following number of directors under:		
Defined contribution schemes	9	11
Defined benefit schemes	-	-
Both defined contribution and defined benefit	-	2
The number of directors who exercised share options	1	-
<b>Directors in respect of whom services were received or receivable under long term incentive schemes</b>	<b>9</b>	<b>13</b>

# CREDIT SUISSE SECURITIES (EUROPE) LIMITED

## NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2009

### 30. Related Parties (continued)

#### Remuneration of Key Management Personnel

	2009 US\$'000	2008 US\$'000
Emoluments	21,711	2,799
Long term incentive schemes	72,713	22,127
Compensation for loss of office	-	200
<b>Total</b>	<b>94,424</b>	<b>25,126</b>
Company contributions to defined contribution plan	108	121
<b>Total</b>	<b>94,532</b>	<b>25,247</b>

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

Key management personnel include Directors and the members of EMEA (Europe, Middle East and Africa) Operating Committee. Prior to the revision in methodology as aforementioned, key management personnel also included significant management responsible for Designated Investment Business.

#### 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 Group at 31 December 2009 (2008: US\$Nil).

#### g) Liabilities due to pension funds

Liabilities due to own pension funds as at 31 December 2009 and 2008 of US\$Nil and US\$Nil respectively.

### 31. Employees

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

	Group and Company	
	2009 Number	2008 Number
Front office	1,647	1,919
Back office	2,865	2,977
<b>Total</b>	<b>4,512</b>	<b>4,896</b>

The Group receives a range of administrative services from related companies. 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 Company and Group.

### 32. Derivatives and Hedging Activities

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

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

# CREDIT SUISSE SECURITIES (EUROPE) LIMITED

## NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2009

### 32. Derivatives and Hedging Activities (continued)

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

- trading activities;
- 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 Group is active in most of the principal trading markets and transacts in many popular trading and hedging products. As noted above, this includes the use of swaps, futures, options and structured products (custom transactions using combinations of derivatives) in connection with its sales and trading activities. Trading activities include market-making, positioning and arbitrage activities. The majority of the Group's derivatives held as at 31 December 2009 were used for trading activities.

#### Economic Hedges

Economic hedges arise when the 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 core banking business assets and liabilities;
- foreign exchange derivatives to manage foreign exchange risk on certain core banking business revenue and expense items, as well as on core banking business assets and liabilities; and
- credit derivatives to manage credit risk on certain loan portfolios.

#### Cash Flow Hedges

The Group uses cash flow hedging strategies to mitigate its risk to variability of cash flows on forecasted transactions. The following table indicates the periods when hedged cash flows are expected to occur and when they are expected to affect the consolidated statements of income. In addition the table summarizes the fair value of derivatives held as cash flow hedges.

	<b>Group and Company 2009 US\$M</b>	<b>Group and Company 2008 US\$M</b>
Fair value of open derivative transactions used as cash flow hedges	-	(19)
Cash inflows from assets		
within 3 months	-	-
between 3 months and 1 year	-	-
between 1 and 5 years	-	-
greater than 5 years	-	-
<b>Total cash inflows from assets</b>	<b>-</b>	<b>-</b>
Cash outflows from liabilities		
within 3 months	-	81
between 3 months and 1 year	-	237
between 1 and 5 years	-	-
greater than 5 years	-	-
<b>Total cash outflows from liabilities</b>	<b>-</b>	<b>318</b>

# CREDIT SUISSE SECURITIES (EUROPE) LIMITED

## NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2009

### **32. Derivatives and Hedging Activities (continued)**

Amounts relating to cash flow hedges transferred to profit or loss during the period are reflected as a component of expenses. Net ineffectiveness recognised on cash flow hedges during 2009 was US\$0.3M (2008: US\$ Nil). Cash flow hedges affect the profit or loss account in the same period when the expenses are recorded such that the hedged expense is recorded using the locked-in foreign exchange rate.

#### **Net Investment Hedges**

The Group typically uses forward foreign exchange contracts to hedge selected net investments in foreign operations. The objective of these hedging transactions is to protect against adverse movements in foreign exchange rates.

The fair value of open derivative transactions used as net investment hedges for the Group and Company as at 31 December 2009 was a liability of US\$2.5M (2008: US\$Nil liability).

#### **Hedge effectiveness assessment**

The Group assesses the effectiveness of hedging relationships both prospectively and retrospectively. The prospective assessment is made both at the inception of a hedging relationship and on an ongoing basis and requires the Group to justify its expectation that the relationship will be highly effective over future periods. The retrospective assessment is also performed on an ongoing basis and requires the Group to determine whether or not the hedging relationship has actually been effective. If the Group concludes, through a retrospective evaluation, that hedge accounting is appropriate for the current period, then it measures the amount of hedge ineffectiveness to be recognised in earnings.

CREDIT SUISSE SECURITIES (EUROPE) LIMITED  
NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2009

32. Derivatives and Hedging Activities (continued)

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

Group	2009				2008			
	Trading		Hedging		Trading		Hedging	
	Positive replacement value	Negative replacement value	Positive replacement value	Negative replacement value	Positive replacement value	Negative replacement value	Positive replacement value	Negative replacement value
	US\$M	US\$M	US\$M	US\$M	US\$M	US\$M	US\$M	US\$M
Forwards and forward rate agreements	39	59	-	-	61	22	-	-
Swaps	4,057	4,889	-	-	7,364	8,724	-	-
Options bought and sold (OTC)	51	61	-	-	102	82	-	-
Options bought and sold (traded)	6	1	-	-	-	-	-	-
<b>Interest rate products</b>	<b>4,153</b>	<b>5,010</b>	-	-	<b>7,527</b>	<b>8,828</b>	-	-
Forwards	1,240	1,087	-	3	7,329	9,616	-	19
Swaps	1,480	1,481	-	-	7,405	4,477	-	-
Options bought and sold (OTC)	430	546	-	-	5,055	4,669	-	-
Options bought and sold (traded)	71	174	-	-	-	-	-	-
<b>Foreign Exchange Products</b>	<b>3,221</b>	<b>3,288</b>	-	<b>3</b>	<b>19,789</b>	<b>18,762</b>	-	<b>19</b>
Forwards	48	12	-	-	14	13	-	-
Swaps	3,189	4,151	-	-	6,009	4,513	-	-
Options bought and sold (OTC)	198	224	-	-	169	172	-	-
Options bought and sold (traded)	125	111	-	-	-	-	-	-
<b>Equity/indexed-related products</b>	<b>3,560</b>	<b>4,498</b>	-	-	<b>6,192</b>	<b>4,698</b>	-	-
<b>Credit swaps</b>	<b>439</b>	<b>436</b>	-	-	<b>1,442</b>	<b>1,423</b>	-	-
Life Finance Related Mortality Swaps	650	410	-	-	107	230	-	-
<b>Other products</b>	<b>650</b>	<b>410</b>	-	-	<b>107</b>	<b>230</b>	-	-
<b>Total derivative instruments</b>	<b>12,023</b>	<b>13,642</b>	-	<b>3</b>	<b>35,057</b>	<b>33,941</b>	-	<b>19</b>

CREDIT SUISSE SECURITIES (EUROPE) LIMITED  
 NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2009

32. Derivatives and Hedging Activities (continued)

Company	2009				2008			
	Trading		Hedging		Trading		Hedging	
	Positive replacement value US\$M	Negative replacement value US\$M	Positive replacement value US\$M	Negative replacement value US\$M	Positive replacement value US\$M	Negative replacement value US\$M	Positive replacement value US\$M	Negative replacement value US\$M
Forwards and forward rate agreements	39	59	-	-	61	22	-	-
Swaps	4,057	4,798	-	-	7,364	8,615	-	-
Options bought and sold (OTC)	51	61	-	-	102	82	-	-
Options bought and sold (traded)	6	1	-	-	-	-	-	-
<b>Interest rate products</b>	<b>4,153</b>	<b>4,919</b>	-	-	<b>7,527</b>	<b>8,719</b>	-	-
Forwards	1,240	1,087	-	3	7,329	9,616	-	19
Swaps	1,480	1,481	-	-	7,405	4,477	-	-
Options bought and sold (OTC)	430	546	-	-	5,055	4,669	-	-
Options bought and sold (traded)	71	174	-	-	-	-	-	-
<b>Foreign Exchange Products</b>	<b>3,221</b>	<b>3,288</b>	-	<b>3</b>	<b>19,789</b>	<b>18,762</b>	-	<b>19</b>
Forwards	48	12	-	-	14	13	-	-
Swaps	3,189	4,151	-	-	6,009	4,513	-	-
Options bought and sold (OTC)	198	224	-	-	169	172	-	-
Options bought and sold (traded)	125	110	-	-	0	-	-	-
<b>Equity/indexed-related products</b>	<b>3,560</b>	<b>4,497</b>	-	-	<b>6,192</b>	<b>4,698</b>	-	-
<b>Credit swaps</b>	<b>439</b>	<b>436</b>	-	-	<b>1,442</b>	<b>1,423</b>	-	-
Life Finance Related Mortality Swaps	2,768	384	-	-	107	230	-	-
<b>Other products</b>	<b>2,768</b>	<b>384</b>	-	-	<b>107</b>	<b>230</b>	-	-
<b>Total derivative instruments</b>	<b>14,141</b>	<b>13,524</b>	-	<b>3</b>	<b>35,057</b>	<b>33,832</b>	-	<b>19</b>

# CREDIT SUISSE SECURITIES (EUROPE) LIMITED

## NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2009

### 33. Commitments

#### Commitments

In the ordinary course of business, the Group and Company enter into contractual commitments involving financial instruments with off balance sheet risk. These financial instruments include financial guarantees, interest rate swaps, interest rate caps and floors written, forwards and futures contracts, options contracts written, currency swaps and currency options.

The Company has granted to Morgan Guaranty Trust Company of New York a fixed charge over all American Depository Receipts ('ADR's) held by that company on behalf of the Company, and over all rights, claims and interests in the relevant underlying securities. At 31 December 2009, the Company held ADRs to the value of US\$378M (2008: US\$359M).

The Company has granted to Morgan Guaranty Trust Company of New York, as operator of the Euroclear System, a charge over cash and securities held in the account of the Company at Euroclear. At 31 December 2009, the Company had open trades of US\$1,308M with Euroclear (2008: US\$212M).

The Company has granted to Morgan Guaranty Trust Company of New York a first fixed charge over all sums standing to the credit of the collateral accounts in the name of the Company together with all rights actual or contingent in respect thereof. At 31 December 2009, the Company held no uncollateralised positions with Euroclear (2008: US\$Nil).

The Company has granted to HSBC Bank Plc a first fixed charge over all sums receivable by the Company in respect of any transfer or debit of stock or other securities and a first floating charge over the title and interest in the stock and securities in connection with the provision of CGO Settlement Bank facilities. At 31 December 2009, the Company had open trades of US\$116M with HSBC Bank Plc (2008: US\$48M).

The Company has granted a pledge of securities and claims to a syndicate of banks whose lead bank is Citibank. This pledge is for all present and future securities, bonds, notes, certificates of deposits, instruments or rights representing property rights or claims as well as all other debentures which may be pledged in the same form as securities, according to Luxembourg Law. At 31 December 2009, the Company had open trades of US\$1,979M with Citibank (2008: US\$903M).

The Company has granted a first fixed charge to HSBC Bank Plc as Settlement Bank over certain receivables in respect of the Company's membership of CREST, and a first floating charge over all eligible stock and other sums due to the Company against failure of the Company to meet its obligations under the Settlement Bank Facility agreement with HSBC Bank Plc. At 31 December 2009, the Company had open trades of US\$542M with CREST (2008: US\$106M).

The Company has granted to The Bank of New York a charge over all securities held in the Company's account with Bank of New York as security for payment and discharge of secured obligations. At 31 December 2009, the Company had open trades of US\$11M with Bank of New York (2008: US\$Nil).

The Company has granted to Glaxosmithkline Export Ltd a charge over Euroclear securities. At 31 December 2009, the Company held no uncollateralised positions with Euroclear (2008: US\$Nil).

The Company has granted to Emerging Markets Clearing Corporation ('EMCC') a charge over all assets and property including all securities and cash on deposit with EMCC as security over any and all obligations and liabilities of the Company to the chargee and a charge over eligible treasury securities forming part of the collateral.

The Company has granted to Abbey National Plc a charge over the second to fifth floors of 164 / 182 Oxford St, London, to Banco Santander Central Hispano S.A a charge over all securities, to Deutsche Bank AG (London Branch) a charge over all rights, title and interest to and in all deposited instruments.



# CREDIT SUISSE SECURITIES (EUROPE) LIMITED

## NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2009

### 33. Commitments (continued)

The Company has granted to Credit Suisse (London Branch) a charge over all proceeds, products, accessions, rents, profits, as well as rights, title and interest in equity interests in trust or any warrants, and a charge over security interests, covering the right title and interest of the pledger as holder of equity interests in trust or any warrants.

The Company granted to China Sunergy Co Ltd a charge over the deposits held in the charged account and to Trina Solar Limited a first fixed charge over the deposits held in the charged account.

The Company has granted to European Central Counterparty Limited, as operator of the Euroclear System, a charge over securities held in the account of the Company at Euroclear, over all cash margin amounts, all cash contributions, all certified securities, all uncertified securities, floating charge all securities and other property deliverable.

During the year, the Company has granted a charge to Natixis Securities in connection with the Repurchase agreement (the 'Secured Obligations'), by way of first fixed charge over full title guarantee all of its rights, title and interest in and to the collateral related to all obligations and liabilities as at 25 November 2009 and in futures owing or incurred by charger.

During the year, the Company has pledged to Natixis Securities, with regards to Securities and Cash in connection with the Repurchase agreement (the 'Secured Obligations'), by way of first ranking pledge for a priority right to the payment out of asset pledged i.e. pledged collateral of which the margined value is at least equal to the transaction amount as a security for the discharge and payment of secured liabilities related to all obligations and liabilities as at 25 November 2009 and in futures owing or incurred by pledgor.

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

### Lease Commitments

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

	<b>Group and Company Total 2009 US\$M</b>	<b>Group and Company of which rental 2009 US\$M</b>	<b>Group and Company Total 2008 US\$M</b>	<b>Group and Company of which rental 2008 US\$M</b>
Up to 1 year	43	37	21	17
From 1 year to 2 years	42	36	13	10
From 2 years to 3 years	44	38	12	9
From 3 years to 4 years	34	29	8	5
From 5 years and over	513	363	1,495	20
<b>Future operating lease commitments</b>	<b>676</b>	<b>503</b>	<b>1,549</b>	<b>61</b>
Less minimum non-cancellable sublease rentals	(19)	(14)	(21)	(16)
<b>Total net future minimum lease commitments</b>	<b>657</b>	<b>489</b>	<b>1,528</b>	<b>45</b>

CREDIT SUISSE SECURITIES (EUROPE) LIMITED  
 NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2009

**33. Commitments (continued)**

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

	<b>Group and Company Total 2009 US\$M</b>	<b>Group and Company of which rental 2009 US\$M</b>	<b>Group and Company Total 2008 US\$M</b>	<b>Group and Company of which rental 2008 US\$M</b>
Minimum rental expense	27	17	25	18
Sublease rental income	(5)	(3)	(5)	(3)
<b>Total net rental expenses</b>	<b>22</b>	<b>14</b>	<b>20</b>	<b>15</b>

On November 11, 2009, Credit Suisse Securities (Europe) Limited completed a sale leaseback transaction on the land and building comprising 20 Columbus Courtyard, London to M1 Group for US\$257M. The property had been owned by Credit Suisse Securities (Europe) Limited on its own behalf (40%) and in trust for Credit Suisse International (60%) and was leased back for both parties under a similar trust agreement. The sale and leaseback transaction resulted in an operating lease at fair value and as a result of this US\$61M was recognised as a gain on sale by Credit Suisse Securities (Europe) Limited. The leaseback is for a term of 25 years with two 5 year renewal options and has rents indexed to Retail Prices Index with a cap and collar. 60% of the property under the operating lease is consequently subleased by Credit Suisse Securities (Europe) Limited to Credit Suisse International and represents an arms length transaction.

**Other Commitments**

The following table sets forth details of other commitments:

	<b>Group and Company Total 2009 US\$M</b>	<b>Group and Company Total 2008 US\$M</b>
Forward reverse repurchase agreements with maturity <1 year	29,781	20,118
Firm commitments with maturity <1 year	1,153	-
Other commitments with maturity <1 year	4	38
<b>Total other commitments</b>	<b>30,938</b>	<b>20,156</b>
<b>Collateral received</b>	<b>-</b>	<b>-</b>

Forward reverse repurchase agreements represent transactions in which the initial cash exchange of the reverse repurchase transaction takes place on a specified future date.

**CREDIT SUISSE SECURITIES (EUROPE) LIMITED**  
**NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2009**

**34. Securitisations and Special Purpose Entities**

The 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 Group consolidates SPEs when the substance of the relationship between the Group and the SPE indicates that the SPE is controlled by the Group. Consideration is given to the Group's ability to control the activities of the SPE and the Group's exposure to the risks and benefits of the SPE.

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

<b>Group</b>	<b>2009 US\$M</b>	<b>2008 US\$M</b>
<b>Assets</b>		
Cash and due from banks	103	160
Trading financial assets at fair value through profit or loss	2	-
Financial assets designated at fair value through profit or loss	2,099	4,496
Other assets	337	40
<b>Total assets</b>	<b>2,541</b>	<b>4,696</b>
<b>Liabilities</b>		
Trading financial liabilities at fair value through profit or loss	2,242	109
Financial liabilities designated at fair value through profit or loss	280	2,449
Short term borrowings	-	2
Other liabilities	17	6
<b>Total liabilities</b>	<b>2,539</b>	<b>2,566</b>
<b>Shareholders' equity</b>		
Capital	-	1,741
Retained earnings	2	389
<b>Total shareholders' equity</b>	<b>2</b>	<b>2,130</b>
<b>Total liabilities and shareholders' equity</b>	<b>2,541</b>	<b>4,696</b>

The Company continues to consolidate life insurance trusts. These trusts hold life insurance contracts and life annuity contracts.

CREDIT SUISSE SECURITIES (EUROPE) LIMITED  
NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2009

**35. Financial Instruments**

Analysis of financial instruments by measurement basis: Financial instruments are measured on an ongoing basis either at fair value or at amortized cost. The following table sets out the carrying amounts and fair values of the Group's financial instruments.

31 December 2009 Group	Held for trading US\$M	Designated at fair value US\$M	Loans and receivables US\$M	Available for sale US\$M	Other amortised cost US\$M	Total carrying amount US\$M	Total fair value US\$M
<b>Financial Assets</b>							
Cash and due from banks	-	-	13,051	-	-	13,051	13,051
Interest-bearing deposits with banks	-	-	-	-	-	-	-
Securities purchased under resale agreements and securities borrowing transactions	-	-	41,716	-	-	41,716	41,716
Trading financial assets at fair value through profit or loss	74,224	-	-	-	-	74,224	74,224
Financial assets designated at fair value through profit or loss	-	99,047	-	-	-	99,047	99,047
Financial assets available-for-sale	-	-	9	27	-	36	36
Other loans and receivables	-	-	1,483	-	-	1,483	1,483
Other assets	-	-	38,673	-	-	38,673	38,673
<b>Total Financial assets</b>	<b>74,224</b>	<b>99,047</b>	<b>94,932</b>	<b>27</b>	<b>-</b>	<b>268,230</b>	<b>268,230</b>

CREDIT SUISSE SECURITIES (EUROPE) LIMITED  
NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2009

35. Financial Instruments (continued)

31 December 2009	Held for trading	Designated at fair value	Loans and receivables	Available for sale	Other amortised cost	Total carrying amount	Total fair value
Group	US\$M	US\$M	US\$M	US\$M	US\$M	US\$M	US\$M
<b>Financial Liabilities</b>							
Deposits	-	-	-	-	2,327	2,327	2,327
Securities sold under repurchase agreements and securities lending transactions	-	-	-	-	47,380	47,380	47,380
Trading financial liabilities at fair value through profit or loss	49,218	-	-	-	-	49,218	49,218
Financial liabilities designated at fair value through profit or loss	-	85,498	-	-	-	85,498	85,498
Short term borrowings	-	-	-	-	38,973	38,973	38,984
Other liabilities	-	-	-	-	35,489	35,489	35,489
Long term debt	-	-	-	-	2,721	2,721	2,982
<b>Total Financial liabilities</b>	<b>49,218</b>	<b>85,498</b>	-	-	<b>126,890</b>	<b>261,606</b>	<b>261,878</b>

CREDIT SUISSE SECURITIES (EUROPE) LIMITED  
NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2009

35. Financial Instruments (continued)

31 December 2008	Held for trading	Designated at fair value	Loans and receivables	Available for sale	Other amortised cost	Total carrying amount	Total fair value
Group	US\$M	US\$M	US\$M	US\$M	US\$M	US\$M	US\$M
<b>Financial Assets</b>							
Cash and due from banks	-	-	10,514	-	-	10,514	10,514
Interest-bearing deposits with banks	-	-	9,028	-	-	9,028	9,028
Securities purchased under resale agreements and securities borrowing transactions	-	-	43,663	-	-	43,663	43,663
Trading financial assets at fair value through profit or loss	77,587	-	-	-	-	77,587	77,587
Financial assets designated at fair value through profit or loss	-	106,296	-	-	-	106,296	106,296
Financial assets available-for-sale	-	-	5	25	-	30	30
Other loans and receivables	-	-	1,483	-	-	1,483	1,483
Other assets	-	-	52,285	-	-	52,285	52,285
<b>Total Financial assets</b>	<b>77,587</b>	<b>106,296</b>	<b>116,978</b>	<b>25</b>	<b>-</b>	<b>300,886</b>	<b>300,886</b>

CREDIT SUISSE SECURITIES (EUROPE) LIMITED  
NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2009

35. Financial Instruments (continued)

31 December 2008	Held for trading	Designated at fair value	Loans and receivables	Available for sale	Other amortised cost	Total carrying amount	Total fair value
Group	US\$M	US\$M	US\$M	US\$M	US\$M	US\$M	US\$M
<b>Financial Liabilities</b>							
Deposits	-	-	-	-	2,127	2,127	2,127
Securities sold under repurchase agreements and securities lending transactions	-	-	-	-	34,361	34,361	34,361
Trading financial liabilities at fair value through profit or loss	54,629	-	-	-	-	54,629	54,629
Financial liabilities designated at fair value through profit or loss	-	96,395	-	-	-	96,395	96,395
Short term borrowings	-	-	-	-	43,372	43,372	43,777
Other liabilities	-	-	-	-	61,225	61,225	61,225
Long term debt	-	-	-	-	2,383	2,383	2,573
<b>Total Financial liabilities</b>	<b>54,629</b>	<b>96,395</b>	-	-	<b>143,468</b>	<b>294,492</b>	<b>295,087</b>

CREDIT SUISSE SECURITIES (EUROPE) LIMITED  
NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2009

35. Financial Instruments (continued)

31 December 2009 Company	Held for trading US\$M	Designated at fair value US\$M	Loans and receivables US\$M	Available for sale US\$M	Other amortised cost US\$M	Total carrying amount US\$M	Total fair value US\$M
<b>Financial Assets</b>							
Cash and due from banks	-	-	12,945	-	-	12,945	12,945
Interest-bearing deposits with banks	-	-	-	-	-	-	-
Securities purchased under resale agreements and securities borrowing transactions	-	-	41,716	-	-	41,716	41,716
Trading financial assets at fair value through profit or loss	76,346	-	-	-	-	76,346	76,346
Financial assets designated at fair value through profit or loss	-	96,873	-	-	-	96,873	96,873
Financial assets available-for-sale	-	-	9	27	-	36	36
Other loans and receivables	-	-	1,483	-	-	1,483	1,483
Other assets	-	-	38,673	-	-	38,673	38,673
<b>Total Financial assets</b>	<b>76,346</b>	<b>96,873</b>	<b>94,826</b>	<b>27</b>	<b>-</b>	<b>268,072</b>	<b>268,072</b>



CREDIT SUISSE SECURITIES (EUROPE) LIMITED  
NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2009

35. Financial Instruments (continued)

31 December 2009	Held for trading	Designated at fair value	Loans and receivables	Available for sale	Other amortised cost	Total carrying amount	Total fair value
Company	US\$M	US\$M	US\$M	US\$M	US\$M	US\$M	US\$M
<b>Financial Liabilities</b>							
Deposits	-	-	-	-	2,327	2,327	2,327
Securities sold under repurchase agreements and securities lending transactions	-	-	-	-	47,380	47,380	47,380
Trading financial liabilities at fair value through profit or loss	49,100	-	-	-	-	49,100	49,100
Financial liabilities designated at fair value through profit or loss	-	85,219	-	-	-	85,219	85,219
Short term borrowings	-	-	-	-	38,973	38,973	38,984
Other liabilities	-	-	-	-	35,490	35,490	35,490
Long term debt	-	-	-	-	2,721	2,721	2,982
<b>Total Financial liabilities</b>	<b>49,100</b>	<b>85,219</b>	<b>-</b>	<b>-</b>	<b>126,891</b>	<b>261,210</b>	<b>261,482</b>

CREDIT SUISSE SECURITIES (EUROPE) LIMITED  
NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2009

35. Financial Instruments (continued)

31 December 2008	Held for trading	Designated at fair value	Loans and receivables	Available for sale	Other amortised cost	Total book value	Total fair value
Company	US\$M	US\$M	US\$M	US\$M	US\$M	US\$M	US\$M
<b>Financial Assets</b>							
Cash and due from banks	-	-	10,353	-	-	10,353	10,353
Interest-bearing deposits with banks	-	-	9,028	-	-	9,028	9,028
Securities purchased under resale agreements and securities borrowing transactions	-	-	43,663	-	-	43,663	43,663
Trading financial assets at fair value through profit or loss	78,129	-	-	-	-	78,129	78,129
Financial assets designated at fair value through profit or loss	-	103,931	-	-	-	103,931	103,931
Financial assets available-for-sale	-	-	5	25	-	30	30
Other loans and receivables	-	-	1,483	-	-	1,483	1,483
Other assets	-	-	52,285	-	-	52,285	52,285
<b>Total Financial assets</b>	<b>78,129</b>	<b>103,931</b>	<b>116,817</b>	<b>25</b>	<b>-</b>	<b>298,902</b>	<b>298,902</b>

CREDIT SUISSE SECURITIES (EUROPE) LIMITED  
NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2009

35. Financial Instruments (continued)

31 December 2008	Held for trading	Designated at fair value	Loans and receivables	Available for sale	Other amortised cost	Total carrying value	Total fair value
Company	US\$M	US\$M	US\$M	US\$M	US\$M	US\$M	US\$M
<b>Financial Liabilities</b>							
Deposits	-	-	-	-	2,127	2,127	2,127
Securities sold under repurchase agreements and securities lending transactions	-	-	-	-	34,361	34,361	34,361
Trading financial liabilities at fair value through profit or loss	54,520	-	-	-	-	54,520	54,520
Financial liabilities designated at fair value through profit or loss	-	94,488	-	-	-	94,488	94,488
Short term borrowings	-	-	-	-	43,371	43,371	43,777
Other liabilities	-	-	-	-	61,225	61,225	61,225
Long term debt	-	-	-	-	2,383	2,383	2,573
<b>Total Financial liabilities</b>	<b>54,520</b>	<b>94,488</b>	<b>-</b>	<b>-</b>	<b>143,467</b>	<b>292,475</b>	<b>293,071</b>

# CREDIT SUISSE SECURITIES (EUROPE) LIMITED

## NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2009

### 35. Financial Instruments (continued)

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.

Quoted market prices, when available, are used as the measure of fair value. In cases where quoted market prices in active markets are not available, fair values are determined, where possible, using other observable current market transactions in the same instrument (i.e. without modification or repackaging) or using a valuation technique whose variable include only data from observable markets. For certain instruments, the valuation technique may incorporate in whole or part assumptions that are not supported by prices from observable current market transactions in the same instruments (ie. without modification or repackaging) and that are not based on available observable market data. Valuation techniques include a range of methodologies, including present value estimates or other valuation techniques such as, for example, the present value of estimated expected future cash flows using discount rates commensurate with the risks involved, option-pricing models, matrix pricing, option-adjusted spread models, and fundamental analysis.

Fair value estimation techniques normally incorporate assumptions that market participants would use in their estimates of values, future revenues, and future expenses, including assumptions about interest rates, default, prepayment and volatility. As assumptions are inherently subjective in nature, the estimated fair values cannot always be substantiated by comparison to independent market quotes and, in many cases, the estimated fair values would not necessarily be realised in an immediate sale or settlement of the instrument.

#### 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 or liabilities.
- Level 2: Inputs other than quoted prices included within level 1 that are observable for the asset or liability, either directly (ie. as prices) or indirectly (ie. derived from prices).
- Level 3: Inputs for the assets or liabilities that are not based on observable market data (unobservable inputs).

CREDIT SUISSE SECURITIES (EUROPE) LIMITED  
 NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2009

**35. Financial Instruments (continued)**

The following table presents the carrying value of the financial instruments held at fair value across the three levels of the fair value hierarchy. It is followed by an analysis and discussion of the financial instruments categorized in level 3.

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

As at 31 December 2009 Group	Quoted market prices (Level 1) US\$M	Valuation technique - observable inputs (Level 2) US\$M	Valuation technique - unobserv- able inputs (Level 3) US\$M	Total at fair value US\$M
<b>Assets</b>				
Trading financial assets at fair value through profit or loss	51,544	21,653	1,027	74,224
Financial assets designated at fair value through profit or loss	-	96,537	2,510	99,047
<b>Total assets at fair value</b>	<b>51,544</b>	<b>118,190</b>	<b>3,537</b>	<b>173,271</b>
Less: Financial assets at fair value attributable to non-controlling interests	-	-	-	-
<b>Assets at fair value attributable to shareholders</b>	<b>51,544</b>	<b>118,190</b>	<b>3,537</b>	<b>173,271</b>
<b>Liabilities</b>				
Trading financial liabilities at fair value through profit or loss	31,630	16,728	860	49,218
Financial liabilities designated at fair value through profit or loss	-	84,819	679	85,498
<b>Total liabilities at fair value</b>	<b>31,630</b>	<b>101,547</b>	<b>1,539</b>	<b>134,716</b>

CREDIT SUISSE SECURITIES (EUROPE) LIMITED  
 NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2009

35. Financial Instruments (continued)

As at 31 December 2009 Company	Quoted market prices  (Level 1) US\$M	Valuation technique - observable inputs (Level 2) US\$M	Valuation technique - unobserv- able inputs (Level 3) US\$M	Total at fair value  US\$M
<b>Assets</b>				
Trading financial assets at fair value through profit or loss	51,544	21,653	3,149	76,346
Financial assets designated at fair value through profit or loss	-	96,537	336	96,873
<b>Total assets at fair value</b>	<b>51,544</b>	<b>118,190</b>	<b>3,485</b>	<b>173,219</b>
Less: Financial assets at fair value attributable to non-controlling interests	-	-	-	-
<b>Assets at fair value attributable to shareholders</b>	<b>51,544</b>	<b>118,190</b>	<b>3,485</b>	<b>173,219</b>
<b>Liabilities</b>				
Trading financial liabilities at fair value through profit or loss	31,630	16,728	742	49,100
Financial liabilities designated at fair value through profit or loss	-	84,819	400	85,219
<b>Total liabilities at fair value</b>	<b>31,630</b>	<b>101,547</b>	<b>1,142</b>	<b>134,319</b>

CREDIT SUISSE SECURITIES (EUROPE) LIMITED  
 NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2009

**35. Financial Instruments (continued)**

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

<b>As at 31 December 2009</b>	<b>Group Trading revenues</b>
<b>Gains and losses on assets and liabilities (US\$M)</b>	
Net realised/unrealised gains/(losses) included in net revenues	(856)
Whereof:	
Changes in unrealised gains or losses relating to assets and liabilities still held as of the reporting date	(719)

<b>As at 31 December 2009</b>	<b>Company Trading revenues</b>
<b>Gains and losses on assets and liabilities (US\$M)</b>	
Net realised/unrealised gains/(losses) included in net revenues	(759)
Whereof:	
Changes in unrealised gains or losses relating to assets and liabilities still held as of the reporting date	(464)

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 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.

CREDIT SUISSE SECURITIES (EUROPE) LIMITED  
NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2009

35. Financial Instruments (continued)

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

As at 31 December 2009 Group (US\$ M)	Balance at beginning of period	Transfers in	Transfers out	Purchases	Sales	Settlement	Issuances	Trading revenues			Balance at end of period
								On transfers in	On transfers out	On all others	
<b>Assets</b>											
Trading financial assets at fair value through profit or loss	1,611	192	(365)	624	(1,170)	563	(163)	(15)	(38)	(212)	1,027
Other financial assets designated at fair value through profit or loss	4,562	-	-	663	(2,760)	336	-	-	-	(291)	2,510
Financial assets designated at fair value through profit or loss	4,562	-	-	663	(2,760)	336	-	-	-	(291)	2,510
Financial assets available-for-sale	-	-	-	-	-	-	-	-	-	-	-
<b>Total assets at fair value</b>	<b>6,173</b>	<b>192</b>	<b>(365)</b>	<b>1,287</b>	<b>(3,930)</b>	<b>899</b>	<b>(163)</b>	<b>(15)</b>	<b>(38)</b>	<b>(503)</b>	<b>3,537</b>
<b>Liabilities</b>											
Trading financial liabilities at fair value through profit or loss	425	151	(119)	(126)	69	(182)	230	16	4	392	860
Securities sold under repurchase agreements and securities lending transactions	990	-	(149)	-	-	(571)	-	-	-	19	289
Long-term debt	129	-	-	-	-	(100)	-	-	-	(16)	13
Other financial liabilities designated at fair value through profit or loss	4,734	-	-	(4,489)	263	(31)	15	-	-	(115)	377
Financial liabilities designated at fair value through profit or loss	5,853	-	(149)	(4,489)	263	(702)	15	-	-	(112)	679
<b>Total liabilities at fair value</b>	<b>6,278</b>	<b>151</b>	<b>(268)</b>	<b>(4,615)</b>	<b>332</b>	<b>(884)</b>	<b>245</b>	<b>16</b>	<b>4</b>	<b>280</b>	<b>1,539</b>
<b>Net assets/liabilities at fair value</b>	<b>(105)</b>	<b>41</b>	<b>(97)</b>	<b>5,902</b>	<b>(4,262)</b>	<b>1,783</b>	<b>(408)</b>	<b>(31)</b>	<b>(42)</b>	<b>(783)</b>	<b>1,998</b>



CREDIT SUISSE SECURITIES (EUROPE) LIMITED  
 NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2009

35. Financial Instruments (continued)

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

As at 31 December 2009 Company (US\$ M)	Balance at beginning of period	Transfers in	Transfers out	Purchases	Sales	Settlement	Issuances	Trading revenues			Balance at end of period
								On transfers in	On transfers out	On all others	
<b>Assets</b>											
Trading financial assets at fair value through profit or loss	2,154	192	(365)	624	(1,668)	2,678	(163)	(15)	(38)	(250)	3,149
Other financial assets designated at fair value through profit or loss	2,197	-	-	-	(66)	(1,795)	-	-	-	-	336
Financial assets designated at fair value through profit or loss	2,197	-	-	-	(66)	(1,795)	-	-	-	-	336
Financial assets available-for-sale	-	-	-	-	-	-	-	-	-	-	-
<b>Total assets at fair value</b>	<b>4,351</b>	<b>192</b>	<b>(365)</b>	<b>624</b>	<b>(1,734)</b>	<b>883</b>	<b>(163)</b>	<b>(15)</b>	<b>(38)</b>	<b>(250)</b>	<b>3,485</b>
<b>Liabilities</b>											
Trading financial liabilities at fair value through profit or loss	357	151	(119)	(126)	69	(182)	198	16	4	374	742
Securities sold under repurchase agreements and securities lending transactions	990	-	(149)	-	-	(571)	-	-	-	19	289
Long-term debt	-	-	-	-	-	-	-	-	-	-	-
Other financial liabilities designated at fair value through profit or loss	2,956	-	-	(2,899)	-	(30)	41	-	-	43	111
Financial liabilities designated at fair value through profit or loss	3,946	-	(149)	(2,899)	-	(601)	41	-	-	62	400
<b>Total liabilities at fair value</b>	<b>4,303</b>	<b>151</b>	<b>(268)</b>	<b>(3,025)</b>	<b>69</b>	<b>(783)</b>	<b>239</b>	<b>16</b>	<b>4</b>	<b>436</b>	<b>1,142</b>
<b>Net assets/liabilities at fair value</b>	<b>48</b>	<b>41</b>	<b>(97)</b>	<b>3,649</b>	<b>(1,803)</b>	<b>1,666</b>	<b>(402)</b>	<b>(31)</b>	<b>(42)</b>	<b>(686)</b>	<b>2,343</b>

# CREDIT SUISSE SECURITIES (EUROPE) LIMITED

## NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2009

### 35. Financial Instruments (continued)

#### 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.

##### Trading securities

The Group's trading securities consist of interest-bearing securities and rights and equity securities. Interest-bearing securities and rights include debt securities, RMBS, CMBS and other ABS and CDOs. Equity securities include common equity shares, convertible bonds and separately managed funds.

For cash and other liquid assets and money market instruments maturing within three months, the fair value is assumed to approximate to book value, given the short term nature of these instruments. For those items with a stated maturity exceeding three months, fair value is calculated using a discounted cash flow analysis.

Financial assets available-for-sale recorded at fair value include equity securities. These equity securities are not quoted.

The fair values of trading debt securities (including RMBS, CMBS and other ABS and CDOs) and equity securities (including common equity shares, convertible bonds and separately managed funds), financial investments from the banking business, investments from the insurance business, and non-consolidated participations where available are based on quoted market prices. Values of RMBS, CMBS and other ABS are generally 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.

For debt securities for which market prices are not available, valuations are based on yields reflecting the perceived risk of the issuer and the maturity of the security, recent disposals in the market or other modelling techniques, which may involve judgement.

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. CDO, collateralized bond and loan obligations are split into various structured tranches and each tranche is valued based upon its individual rating and the underlying collateral supporting the structure. Valuation models are used to value both cash and synthetic CDOs.

Equity securities for which there are no significant observable values are determined by their yield and the subordination relative to the issuer's other credit obligations. For a small number of convertible bonds, no observable prices are available, and valuation is determined using internal and external models, for which the key inputs include stock price, dividend rates, credit spreads, foreign exchange rates, prepayment rates and equity market volatility.

# CREDIT SUISSE SECURITIES (EUROPE) LIMITED

## NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2009

### 35. Financial Instruments (continued)

#### Derivatives

Positions in derivatives held for trading purposes include both OTC and exchange-traded derivatives. The fair values of exchange-traded derivatives are typically derived from observable exchange prices and/or observable inputs. The fair values of OTC derivatives are determined on the basis of internally developed proprietary models using various inputs. The inputs include those characteristics of the derivatives that have a bearing on the economics of the instruments. Certain more complex derivatives use unobservable inputs. Specific unobservable inputs include long-dated volatility assumptions, recovery rate assumptions for credit derivative transactions. Uncertainty of pricing inputs and liquidity are also considered as part of the valuation process.

#### Deposits

For deposit instruments with no stated maturity and those with original maturities of less than three months, the book value is assumed to approximate to fair value due to the short term nature of these liabilities. For deposit instruments with a stated maturity exceeding three months, fair value is calculated using a discounted cash flow analysis.

#### Short-term borrowings and Long-term debt

Short-term borrowings and long-term debt include structured notes (hybrid financial instruments that are both bifurcable and non-bifurcable) and vanilla debt. The fair value of these debt instruments is based on quoted prices, where available. Where quoted prices are not available, fair values are calculated using yield curves for similar maturities, taking into consideration the impact of the CSG's own credit spread on these instruments.

Although the Group adopted the amendments to IAS 39 Financial Instruments: Recognition and Measurement and IFRS 7 Financial Instruments: Disclosures regarding reclassification of financial assets, there were no reclassifications of financial assets done during the year.

#### Sensitivity analysis of unobservable input parameters

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 summarizes the sensitivity of these financial instruments to reasonable changes in the assumptions underlying these parameters:

#### Sensitivity of fair values to reasonably possible alternative assumptions

As at 31 December 2009 Group	Potential impact on profit and loss	
	Favourable changes (US\$M)	Unfavourable changes (US\$M)
Life insurance products	176	(183)
Asset backed securities	6	(6)
Other liabilities	12	(12)
	<u>194</u>	<u>(201)</u>

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

Life insurance products includes Single Premium Immediate Annuities, premium finance, life settlement contracts and longevity and mortality swaps, while asset backed securities includes RMBS positions.

**CREDIT SUISSE SECURITIES (EUROPE) LIMITED**  
**NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2009**

**35. Financial Instruments (continued)**

The sensitivities applied to the unobservable parameters are in all cases dependent upon management judgement and derived from multiple sources including historical and statistical information as well as analyzing the range of bids and offers on observable market information as a proxy for the unobservable portion of the market. For life insurance products the primary inputs subjected to sensitivity analysis included mortality rates and credit spreads, while for the asset backed securities the security prices were subjected to reasonably alternative levels.

**Recognition of trade date profit**

Any initial gain or loss on financial instruments, where valuation is dependent on unobservable parameters, is deferred over the life of the contract or until the instrument is redeemed, transferred or sold or the fair value becomes observable. The table below 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 Company	2009 US\$M	2008 US\$M
<b>Deferred trade date profit</b>		
Balance at the beginning of period	(468)	(82)
Increase due to new trades	(158)	(424)
Reduction due to passage of time	37	18
Reduction due to redemption, sales, transfers or improved observability	225	20
<b>Total</b>	<b>(364)</b>	<b>(468)</b>

**36. Assets Pledged or Assigned**

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

31 December 2009 Group and Company	Group and Company 2009 US\$M	Group and Company 2008 US\$M
<b>Assets pledged or assigned</b>		
Trading financial assets at fair value through profit or loss	44,229	25,428
Total book value of assets pledged and assigned as collateral	44,229	25,428
of which assets provided with the right to sell or repledge	36,221	19,006
<b>Collateral received</b>		
Fair value of collateral received with the right to sell or repledge	268,520	249,977
of which sold or repledged	236,836	229,905

As at 31 December 2009 and 2008, 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 Group had been sold or repledged in connection with repurchase agreements, securities sold not yet purchased, securities borrowed and lent, pledges to clearing organisations, segregation requirements under securities laws and regulations, derivative transactions and bank loans.

UK banking cash reserves, consisting of client money, held by the Group and Company were US\$7,837M as at 31 December 2009 (2008: US\$8,939M).

Additional charges are included in note 33 'Commitments'.

# CREDIT SUISSE SECURITIES (EUROPE) LIMITED

## NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2009

### 37. Derecognition of financial assets

In the normal course of business, the Group enters into transactions in which it transfers previously recognised financial assets, such as debt securities, equity securities and other financial instruments. The Group's accounting policy regarding derecognition of such assets under IAS 39 is described in Note 2 – Summary of significant accounting policies. The Group's and our client's investing or financing needs determines whether derecognition of the transferred assets under IAS 39 applies. Certain transactions may be structured to include provisions that prevent derecognition and the transfers are accounted for as secured financing transactions. Repurchase agreements, securities lending agreements and total return swaps, in which the 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. The following table provides details of financial assets which have been sold or otherwise transferred, but which did not qualify for derecognition, together with their associated liabilities.

	2009 US\$M	2008 US\$M
<b>Carrying amount of transferred assets</b>		
Financial assets not derecognised due to the following transactions:		
Repurchase agreements	244	347
Securities lending agreements	22,792	11,721
Total return swaps	2,401	-
Other	502	-
<b>Total carrying amount of transferred assets not derecognised</b>	<b>25,939</b>	<b>12,068</b>
<b>Total carrying amount of associated liabilities</b>	<b>(25,939)</b>	<b>(12,068)</b>

The assets not derecognised are included in Note: 12 'Securities borrowed, lent and subject to resale agreements' and corresponding liabilities in Note 16: 'Other assets and other liabilities'.

### 38. Risks arising from financial instruments

#### a) Risk Management Oversight

##### Overview

The Group is part of CSG and its risks are managed as part of the global Credit Suisse group of entities. The Credit Suisse group risk management process is designed to ensure that there are sufficient independent controls to measure, monitor and control risks in accordance with Credit Suisse group's control framework and in consideration of industry best practices. The primary responsibility for risk management lies with Credit Suisse group's senior business line managers. They are held accountable for all risks associated with their businesses, including counterparty risk, market risk, liquidity risk, operational risk, legal risk and reputational risk.

##### Risk governance

The prudent taking of risk in line with Credit Suisse group's strategic priorities is fundamental to its business as a leading global bank. To meet the challenges in a fast-changing industry with new market players and innovative and complex products, Credit Suisse group continuously strengthens the risk function, which is independent of, but closely interacts with the trading functions to ensure the appropriate flow of information. Credit Suisse group's risk management framework is based on transparency, management accountability and independent oversight.

As a consequence of the increased complexity of risks, Credit Suisse group has defined its risk perspective broadly. Risk management plays an important role in Credit Suisse group'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 Credit Suisse group's financial strength and reputation, while ensuring that capital is well deployed to support business activities and grow shareholder value.

# CREDIT SUISSE SECURITIES (EUROPE) LIMITED

## NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2009

### 38. Risks arising from financial instruments (continued)

Although Credit Suisse group has implemented comprehensive risk management processes and sophisticated control systems, it works to limit the impact of negative developments by carefully managing concentrations of risks. Further, the business mix of Private Banking, Investment Banking and Asset Management provides a certain amount of risk diversification.

CS groups Investment Banking business continued to focus on risk reduction initiative throughout 2009. In line with the strategy of focusing on key client businesses with a strong risk-reward profile, it continued to wind down and realign certain other businesses, reducing exposures to illiquid and dislocated markets and improving capital efficiency. In contrast there has been a selective increased trading activity in more liquid products to take advantage of the prevailing market conditions.

#### *Risk organisation*

Risks arise in all of Credit Suisse group's business activities and cannot be completely eliminated, but they are managed through a comprehensive internal control environment. Credit Suisse group'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. At the level of the Boards of Directors, this includes the following responsibilities:

- CSG Board of Directors: Responsible to shareholders for the strategic direction, supervision and control of Credit Suisse group and for defining its overall tolerance for risk.
- Boards of Directors of other Credit Suisse group legal entities: Responsible for the strategic direction, supervision and control of the respective legal entity and for defining the legal entity's tolerance for risk.
- Risk Committees: Responsible for assisting the Boards of Directors of CSG and other Credit Suisse group legal entities in fulfilling their oversight responsibilities by providing guidance regarding risk governance and the development of the risk profile and capital adequacy, including the regular review of major risk exposures and the approval of overall risk limits.
- Audit Committees: Responsible for assisting the Boards of Directors of CSG and other Credit Suisse group legal entities in fulfilling their oversight responsibilities by monitoring management's approach with respect to financial reporting, internal controls, accounting, and legal and regulatory compliance. Additionally, the Audit Committees are responsible for monitoring the independence and the performance of the internal and external auditors.

Overall risk limits are set by the CSG Board of Directors and its Risk Committee. On a monthly basis, the Capital Allocation and Risk Management Committee ('CARMC') of CSG's Executive Board reviews risk exposures, concentration risks and risk-related activities. CARMC is responsible for supervising and directing Credit Suisse group's risk profile on a consolidated basis, recommending risk limits to the CSG Board of Directors and its Risk Committee and for establishing and allocating risk limits within the various businesses. CARMC meetings focus on the following three areas on a rotating basis: asset and liability management/liquidity, market and credit Risk and operational risk/legal and compliance.

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. The Credit Portfolio and Provisions Review Committee reviews 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. There are also Divisional Risk Management Committees ('RMC'), which manage risk on a divisional basis.

# CREDIT SUISSE SECURITIES (EUROPE) LIMITED

## NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2009

### 38. Risks arising from financial instruments (continued)

The risk management function, which is independent of the business, includes:

- Strategic Risk Management ('SRM')
- Risk Measurement and Management ('RMM')
- Credit Risk Management ('CRM')
- Bank Operational Risk Oversight ('BORO')
- Business Continuity Management
- Reputational Risk Management

The Credit Risk Officer ('CRO') area is responsible for providing risk management oversight and establishing an organisational basis to manage all risk management matters through four primary risk functions: SRM assesses the overall risk profile on a CSG-wide portfolio level and for individual businesses, and recommends corrective action, where necessary; RMM is responsible for the measurement and reporting of credit risk, market risk and economic capital, managing risk limits, and establishing policies on market risk and economic capital; CRM has a Chief Credit Officer ('CCO') for Private Banking and a CCO for Investment Banking and Asset Management, with responsibilities for approving credit limits, monitoring and managing individual exposures and assessing and managing the quality of credit portfolios and allowances; and BORO acts as the central hub for the divisional Operational Risk functions. The CRO area also addresses critical risk areas such as Business Continuity and Reputational Risk Management.

#### Risk limits

A sound system of risk limits is fundamental to effective risk management. The limits define Credit Suisse group's maximum Statement of Financial Position and off-balance sheet exposure given the market environment, business strategy and financial resources available to absorb losses.

Credit Suisse group uses an Economic Capital ('EC') limit structure to manage overall risk-taking. The level of risks incurred by the divisions is further restricted by a variety of specific limits. For example, there are consolidated controls over trading exposures, the mismatch of interest-earning assets and interest-bearing liabilities, private equity and seed money, and emerging market country exposures. Risk limits are allocated to lower organisational levels within the businesses, and numerous other limits are established for specific risks, including a system of individual counterparty credit limits that is used to control concentration risks.

#### Economic capital and position risk

Economic Capital is the core Group-wide risk management tool. It represents good 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 Credit Suisse group, which increases risk transparency and improves knowledge-sharing. The development and usage of EC methodologies and models have evolved over time without a standardized 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 Credit Suisse group. Position Risk EC is the level of unexpected loss in economic value on Credit Suisse group'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). For further details of the economic capital framework, refer to Treasury management – Economic capital in the Credit Suisse Group Annual Report.

Credit Suisse group regularly reviews the EC methodology to ensure the model remains relevant as markets and business strategies evolve, and in that respect a number of key enhancements have been made in the year to better reflect the impact that was witnessed during the extreme market dislocation in 2008.

# CREDIT SUISSE SECURITIES (EUROPE) LIMITED

## NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2009

### 38. Risks arising from financial instruments (continued)

#### b) 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. Credit Suisse group 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.

Credit Suisse group devotes considerable resources to ensuring that market risk is comprehensively 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 group level down to specific portfolios. Credit Suisse group uses market risk measurement and management methods designed to meet or exceed industry standards. These include general tools capable of calculating comparable exposures across Credit Suisse group'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 VaR and scenario analysis. Additionally, Credit Suisse group's market risk exposures are reflected in its EC calculations. The risk management techniques and policies are regularly reviewed to ensure they remain appropriate.

#### Value at Risk

VaR measures the potential loss in 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. Credit Suisse group 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 BCBS and other related international standards for market risk management. For some purposes, such as backtesting, disclosure and benchmarking with competitors, the resulting VaR figures are scaled down or calculated to a one-day holding period level.

Credit Suisse group 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 and 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. Credit Suisse group uses a three-year historical dataset to compute VaR. To ensure that VaR responds appropriately in times of market stress, Credit Suisse group also calculate scaled VaR, which is 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 scaled VaR model. Credit Suisse group monitors VaR on both an unscaled and scaled basis for risk management purposes.

The scaling factor decreased in 2009, as the short-term average volatility declined below the long-term average.



# CREDIT SUISSE SECURITIES (EUROPE) LIMITED

## NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2009

### **38. Risks arising from financial instruments (continued)**

The Group has approval from the FSA to use its scaled VaR model in the calculation of trading book market risk capital requirements. The Group continues to receive regulatory approval for ongoing enhancements to the methodology, and the model is subject to regular reviews by regulators. The VaR model uses assumptions and estimates that Credit Suisse group 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. VaR also assumes that price data from the recent past can be used to predict future events. If future market conditions differ substantially from past market conditions, the risk predicted by VaR may be overestimated or underestimated.

#### **Scenario analysis**

Credit Suisse group regularly performs scenario analysis to estimate the loss that could arise from extreme, but plausible, stress events in the economy or in financial markets by applying predefined scenarios to the relevant portfolios. Scenarios are typically defined in light of past economic or financial market stress periods, but statistical analysis is also used to define the less severe scenarios in the framework.

As past events recur in exactly the same way, it is necessary to use business experience to choose a set of meaningful scenarios and to assess the scenario results in light of current economic and market conditions.

The scenario analysis calculations performed are specifically tailored towards their respective risk profile. In addition, to identify areas of risk concentration and potential vulnerability to stress events across Credit Suisse group, it has developed a set of scenarios which are consistently applied across all businesses. Key scenarios include significant movements in credit markets, interest rates, equity prices and exchange rates, as well as adverse changes in counterparty default and recovery rates. Credit Suisse group also uses combination scenarios, which consider the impact of significant, simultaneous movements across a broad range of markets and asset classes, to analyze the impact of wider market turbulence. The scenario analysis framework also considers the impact of various scenarios on key capital adequacy measures such as regulatory capital and economic capital ratios. The CSG Board of Directors and senior management are regularly provided with scenario analysis estimates, scenario analysis trend information and supporting explanations to create transparency on key risk exposures and support their management of risk.

The scenario analysis framework is periodically reviewed to help ensure that it remains relevant given changes in portfolio composition and market conditions. Each primary scenario is typically run at several different levels of severity to provide information on possible losses over a range of market circumstances. In 2009, we recalibrated the parameter shocks for most types of scenarios to reflect the more volatile market conditions that occurred in the fourth quarter of 2008.

#### **Trading portfolios**

##### ***Risk measurement and management***

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 Company's regulatory capital purposes. This classification of assets as trading is done for the purpose of analysing our market risk exposure, not for financial statement purposes.

**CREDIT SUISSE SECURITIES (EUROPE) LIMITED**  
**NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2009**

**38. Risks arising from financial instruments (continued)**

***Development of trading portfolio risks***

The table below shows the trading-related market risk exposure for the Group, as measured by scaled one-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.

**CS Securities (Europe) Ltd Value-at-Risk <sup>2)</sup>**

<b>in / end of period</b>	<b>Interest rate and credit spread</b>	<b>Foreign exchange</b>	<b>Commodity</b>	<b>Equity</b>	<b>Diversification benefit 1)</b>	<b>Total (Non-Scaled)</b>	<b>Total (Scaled)</b>
<b>2009</b>							
<b>In US\$M</b>							
<b>Average</b>	<b>23</b>	<b>6</b>	<b>-</b>	<b>11</b>	<b>(11)</b>	<b>29</b>	<b>34</b>
Minimum	10	1	-	3	<sup>1)</sup>	12	16
Maximum	47	11	1	62	<sup>1)</sup>	83	95
End of period	41	8	-	7	(15)	41	41
<b>2008</b>							
<b>In US\$M</b>							
<b>Average</b>	<b>40</b>	<b>11</b>	<b>1</b>	<b>27</b>	<b>(21)</b>	<b>58</b>	<b>81</b>
Minimum	15	3	-	5	<sup>3)</sup>	19	28
Maximum	56	35	3	50	<sup>3)</sup>	83	114
End of period	25	5	-	9	(13)	26	39

Note:

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) All figures above are 1 Day scaled VaR (from 10 Day VaR) for trading book only positions.

3) 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 Group's one-day, 99% scaled VaR as of 31 December 2009 increased by 5% to US\$41M compared to 31 December 2008. There was no difference between scaled and unscaled VaR as of 31 December 2009, as the short-term average volatility declined below the long term average

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

The Group had no backtesting exceptions in 2009, compared with 21 backtesting exceptions in 2008. The exceptions in 2008 were primarily driven by extreme movements in US mortgage markets, coupled with contagion effects across the wider credit, equity, interest rate and foreign exchange markets throughout the year.

# CREDIT SUISSE SECURITIES (EUROPE) LIMITED

## NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2009

### 38. Risks arising from financial instruments (continued)

#### Non-trading 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 Group'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. This risk is included in Credit Suisse group's EC model.

##### *Development of non-trading portfolio risks*

Foreign exchange risk related to accrued net income and net assets is centrally and systematically managed with a focus on risk reduction and diversification. Risk is monitored and managed at an entity level through the levelling of accrued profits and losses which are incurred in a currency other than the entity's functional currency.

Additional overlay activities at the Credit Suisse group level are aimed at diversifying our returns on invested capital into foreign currencies. These need explicit approval of the Asset and Liability Management CARMC and are made with various considerations in mind, such as management of changes in the Tier One ratio arising from foreign exchange.

Any non-functional currency denominated profit and loss of an entity (calculated on a US GAAP basis) is systematically levelled against the entity functional currency during or immediately after the month so that foreign exchange risks on accrued profit and loss are fully eliminated at month-end. The functional currency equivalent profit and loss of a legal entity not having United States dollar as its functional currency is then translated monthly into the Group's functional currency, the United States dollar, using global month-end exchange rates. The process ensures that month-end profit and loss is effectively locked into United States dollar from an accounting perspective. The structural net asset positions in functional currency equivalents resulting from these activities (including net profits of earlier periods) are centrally hedged by Global Treasury against the CSG's functional currency on a monthly basis.

Interest rate risk on non-trading positions is shown below using sensitivity analysis that estimates the potential change in value resulting from defined changes in interest rate yield curves. The impact of a one-basis-point parallel increase in yield curves on the fair value of interest rate-sensitive non-trading book positions would have amounted to less than US\$1M as of 31 December 2009 and 31 December 2008. 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 2009, the fair value impacts of an adverse 200-basis-point move in yield curves and of a statistical one-year, 99% adverse change in yield curves were a decrease of US\$12M and a decrease of US\$16M, respectively.

These amounts are significantly below the 20% threshold used by regulators to identify firms that potentially run excessive levels of non-trading interest rate risk.

The Group and Company do not have material equity or commodity risk in its non-trading portfolio.

#### **ii) Liquidity Risk**

Liquidity is the ability of a bank to fund assets and meet obligations as they come due, without incurring unacceptable losses.

# CREDIT SUISSE SECURITIES (EUROPE) LIMITED

## NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2009

### 38. Risks arising from financial instruments (continued)

The 2009 operating environment continually improved which allowed CSG to further strengthen its conservative liquidity and funding management strategy and strong capital position, issuing long-term debt on a non-government guaranteed basis.

The funding sourced by CSG is part of a conservative Asset-Liability Management (ALM) strategy aimed at maintaining a funding structure with long-term stable funding sources being well in excess of illiquid assets. Unsecured funding sources of CSG include private, corporate and retail banking client deposits, long-term debt, certificates of deposit, bank deposits, fiduciary deposits, central bank deposits and other non-bank deposits.

CSG subsidiaries also have the ability to access secured funding via repurchase and other secured financing markets and structured note issuance programmes. These funding streams ensure the availability of alternative financing to meet business plans and commercial commitments.

The CSG Strategic Funding Plan is approved by ALM CARMC, a committee that includes the CEOs of the Group and the Divisions, the CFO, the CRO and the Treasurer and is overseen by the Board of Directors of CSG. The execution of the strategy is managed by Treasury.

Treasury operates a centralised funding model in that it grants all CSG branches and subsidiaries full access, under all circumstances (including the event of a liquidity crisis) to the bank's global pool to meet any funding requirements. In cases where regulation severely limits ability of onshore CSG entities ('closed locations') to borrow from offshore CSG entities Treasury will establish a local Liquidity Guideline and Contingency Plan to adequately protect the business from liquidity risk.

The centralised funding model ensures that sufficient funds are either on hand or readily available at short notice so that in the event of liquidity dislocation CSG has sufficient funds to repay maturing liabilities, be they contractual, behavioural or contingent, as they fall due for an extended period of time without having to reduce on-going franchise business activities to generate liquidity.

Substantially all of CSG unsecured senior debt is issued without financial covenants that would increase the cost of financing or accelerate the maturity, including adverse changes in CSG group credit ratings, cash flows, results of operations or financial ratios.

To address short-term liquidity needs a portfolio of highly liquid securities is maintained. These positions are eligible for repo transactions with various central banks including the Swiss National Bank, the Federal Reserve, the European Central Bank, the Bank of England and the Bank of Japan. In response to the credit crisis many Central Banks widened the range of eligible securities which they accept as collateral but CSG assume that these programmes are only temporary in nature and therefore place no reliance on them as a primary source of funding.

Treasury is responsible for maintaining a contingency funding plan that details specific dealing strategies, actions and responsibilities required under distinct stages of increasing severity. Treasury supports the plan with key liquidity tools to provide a formal risk appetite and consideration of the impact of operational constraints in terms of time and ability to monetise assets, trapped liquidity and daylight collateral requirements.

Maintaining liquidity generates cost for CSG in respect of generating a term funding profile and holding a buffer of highly liquid assets. Treasury ensures that the allocation of liquidity cost to the business reflects the true economic cost and is consistent with the liquidity policy. During 2009 the marginal transfer pricing rates were adjusted to promote efficient generation and usage of funding and liquidity.

The liquidity and funding profile of CSG reflects the risk appetite, business activities, strategy, the markets and overall operating environment, adapted to reflect lessons learned from the recent financial crisis and subsequent changes in business strategy. Liquidity risk management also reflects evolving best practice standards as issued by various bodies over the past 24 months with Treasury being an active participant in regulatory and industry forums, including the Basel Committee on Banking Supervision, Institute of International Finance and the Joint Industry Committee on Liquidity Risk (JACLR), comprising of LIBA, ISDA and the British Bankers Association.

**CREDIT SUISSE SECURITIES (EUROPE) LIMITED**  
**NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2009**

**38. Risks arising from financial instruments (continued)**

The liquidity risk of the Company is managed as an integral part of the overall liquidity framework.

A liquidity policy for the Company is maintained to ensure compliance with FSA regulatory policies and internal limits and guidelines.

In October 2009 FSA published PS09/16, Strengthening Liquidity Standards, which called for a significant change to liquidity management in the UK. The policy included new 'Systems and Controls' requirements which came into effect on 1st December 2009 setting out a new framework in which firms have to maintain liquidity resources and manage liquidity risk.

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

<b>Group 2009</b>	<b>On Demand</b>	<b>Due within 3 months</b>	<b>Due between 3 and 12 months</b>	<b>Due between 1 and 5 years</b>	<b>Due after 5 years</b>	<b>Total</b>
	<b>US\$M</b>	<b>US\$M</b>	<b>US\$M</b>	<b>US\$M</b>	<b>US\$M</b>	<b>US\$M</b>
Deposits	2,327	-	-	-	-	2,327
Securities sold under repurchase agreements and securities lending transactions	43,975	3,405	-	-	-	47,380
Trading financial liabilities at fair value through profit or loss	49,218	-	-	-	-	49,218
Financial liabilities designated at fair value through profit or loss	9,964	68,311	7,107	18	98	85,498
Short term borrowings	-	38,973	-	-	-	38,973
Other liabilities	35,489	-	-	-	-	35,489
Long term debt	-	-	-	-	2,721	2,721
<b>Total financial liabilities</b>	<b>140,973</b>	<b>110,689</b>	<b>7,107</b>	<b>18</b>	<b>2,819</b>	<b>261,606</b>

<b>Group 2008</b>	<b>On Demand</b>	<b>Due within 3 months</b>	<b>Due between 3 and 12 months</b>	<b>Due between 1 and 5 years</b>	<b>Due after 5 years</b>	<b>Total</b>
	<b>US\$M</b>	<b>US\$M</b>	<b>US\$M</b>	<b>US\$M</b>	<b>US\$M</b>	<b>US\$M</b>
Deposits	2,127	-	-	-	-	2,127
Securities sold under repurchase agreements and securities lending transactions	34,361	-	-	-	-	34,361
Trading financial liabilities at fair value through profit or loss	54,629	-	-	-	-	54,629
Financial liabilities designated at fair value through profit or loss	13,810	73,430	7,133	26	1,996	96,395
Short term borrowings	-	36,752	6,620	-	-	43,372
Other liabilities	61,225	-	-	-	-	61,225
Long term debt	-	-	-	-	2,383	2,383
<b>Total financial liabilities</b>	<b>166,152</b>	<b>110,182</b>	<b>13,753</b>	<b>26</b>	<b>4,379</b>	<b>294,492</b>

# CREDIT SUISSE SECURITIES (EUROPE) LIMITED

## NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2009

### 38. Risks arising from financial instruments (continued)

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

Callable deposits, open ended positions and overnight funding will be recorded at their present value in an 'on demand' categorisation. This classification will be based on the underlying legal and contractual ability of the counterparty or the Group to put or call the positions at short notice.

#### iii) Currency Risk

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

The Company manages its currency risk with the Value at Risk (VaR) methodology, a discussion of which is contained in section a) of this note.

#### iv) Credit Risk

CRM 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 areas' credit portfolios and allowances. CRM reports to the Chief Risk Officer of CS group.

#### Definition of Credit Risk

Credit risk is the possibility of loss incurred as a result of a borrower or counterparty failing to meet its financial obligations. In the event of a default, a bank generally incurs a loss equal to the amount owed by the debtor, less any recoveries resulting from foreclosure, liquidation of collateral or the restructuring of the debtor company.

Credit risk exists within lending products, commitments and letters of credit, and results from counterparty exposure arising from derivative, foreign exchange and other transactions.

#### Credit Risk Management Approach

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

This credit risk management framework is regularly refined and covers all banking business areas that are exposed to credit risk. The framework is designed to cover 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 risk is evaluated through a credit request and approval process, ongoing credit and counterparty monitoring and a credit quality review process. Experienced credit officers analyse credit requests and assign internal ratings based on their analysis and evaluation of the client's creditworthiness and the type of credit transaction.

# CREDIT SUISSE SECURITIES (EUROPE) LIMITED

## NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2009

### **38. Risks arising from financial instruments (continued)**

#### **Concentration of credit risk**

Credit risk concentrations arise when a number of counterparties are engaged in similar business activities, are located in the same geographic region or when there are similar economic features that would cause their ability to meet contractual obligations to be similarly impacted by changes in economic conditions.

The Group regularly monitors the credit risk portfolio by counterparties, industry, country and products to ensure that such potential concentrations are identified, using a comprehensive range of quantitative tools and metrics. Credit limits relating to counterparties and products are managed through counterparty limits which set the maximum credit exposures the Group is willing to assume to specific counterparties over specified periods. Country limits are established to avoid any undue country risk concentration.

From an industry point of view, the combined credit exposure of the Group is diversified. A large portion of the credit exposure relates to transactions with financial institutions. The customer base is extensive and the number and variety of transactions are broad. For transactions with financial institutions, the business is also geographically diverse, with operations focused in Americas, Europe and, to a lesser extent, Asia Pacific.

#### **Counterparty and transaction rating**

CS group has developed a set of credit rating models tailored for different client segments (e.g. international corporates, financial institutions, asset finance, Small and Medium Enterprises ('SME'), commodity traders, residential mortgages, etc.) for the purpose of internally rating counterparties to whom CS group are exposed to credit risk as the contractual party to a loan, loan commitment or OTC derivative contract.

The models are built from statistical data and then subject to a thorough business review before implementation. Each credit rating model is validated independently prior to implementation and on a regular basis. At the time of initial credit approval and review, relevant quantitative data (e.g. financial statements, financial projections, etc.) as well as qualitative factors relating to the counterparty are used in the models and result in the assignment of a credit rating or probability of default ('PD'), which measures the counterparty's risk of default over a one-year period.

To ensure that ratings are consistent and comparable across all businesses, CS group has used an internal rating scale which is benchmarked to the external rating agencies, using the historical PD associated with external ratings.

The relationship between the PD and external agency ratings is reviewed annually and adjustments are made to calibrate the internal rating classification to the assumed PD in the external ratings.

Additionally, an estimate of expected loss in the event of a counterparty default is assigned 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.

These credit risk estimations are used consistently for the purposes of business and credit portfolio steering, credit policy, approval and monitoring, management reporting, risk-adjusted performance measurement, economic risk capital measurement and allocation and certain financial accounting purposes. The overall internal credit rating system has been approved by the FINMA for application under the Basel II A-IRB approach. This approach also allows us to price transactions involving credit risk more accurately, based on risk/return estimates.

#### **Credit approval process and provisioning**

Senior credit managers make credit decisions on a transaction-by-transaction basis, at authority levels reflecting the amount and complexity of the transactions and the overall exposures to counterparties and their related entities. These approval authority levels are set by each legal entity.

# CREDIT SUISSE SECURITIES (EUROPE) LIMITED

## NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2009

### **38. Risks arising from financial instruments (continued)**

A system of credit limits is used to manage individual counterparty credit risk. Other limits are also established to address concentration issues in the portfolio, including a comprehensive set of country and regional limits and limits for certain products. Credit exposures to individual counterparties, industry segments or product groupings and adherence to the related limits are monitored by credit officers, industry analysts and other relevant specialists. In addition, credit risk is regularly supervised by credit and risk management committees taking current market conditions and trend analysis into consideration. CS group regularly analyses industry diversification and concentrations.

The review process culminates in a quarterly determination of the appropriateness of allowances for credit losses. A systematic provisioning methodology is used to identify potential credit risk-related losses. Impaired transactions are classified as potential problem exposure, non-performing exposure, or non-interest earning exposure and the exposures are generally managed within credit recovery units. The credit provisions review committee ('CPRC') regularly determines the adequacy of allowances, taking into consideration whether the levels are sufficient for credit losses and whether allowances can be released or if they should be increased.

#### **Credit Risk Overview**

All transactions that are exposed to potential losses due to failure of meeting an obligation by a counterparty are subject to credit risk exposure measurement and management. The following table presents the credit risk of on Statement of Financial Position and off balance sheet financial instruments, before taking account 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 Statement of Financial Position, the exposure to credit risk equals their carrying amount. For financial guarantees granted, the exposure to credit risk is the amount the Group would have to pay if the guarantees are called upon. For loan commitments and other credit related commitments that are irrevocable over the life of the respective facilities, the exposure to credit risk is the full amount of the committed facilities.



**CREDIT SUISSE SECURITIES (EUROPE) LIMITED**  
**NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2009**

**38. Risks arising from financial instruments (continued)**

**Maximum exposure to credit risk before collateral held or other credit enhancement**

The following table presents the maximum exposure to credit risk of balance sheet financial instruments, before taking account 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 2009

Maximum exposure to credit risk before collateral held or other credit enhancement:

	<b>Group 2009 US\$M</b>	<b>Group 2008 US\$M</b>
Cash and due from banks	13,051	10,514
Interest-bearing deposits with banks	-	9,028
Securities purchased under resale agreements and securities borrowing transactions	41,716	43,663
Trading financial assets at fair value through profit or loss		
Debt securities	28,079	32,329
Derivative instruments	12,023	35,057
Financial assets designated at fair value through profit or loss		
Securities purchased under resale agreements and securities borrowing transactions	96,537	101,734
Other loans and receivables	-	2,311
Other financial assets designated at fair value through profit or loss	2,510	2,251
Financial assets available-for-sale	36	30
Other loans and receivables	1,483	1,483
Other assets	36,548	47,428
<b>Total</b>	<b>231,983</b>	<b>285,828</b>

	<b>Company 2009 US\$M</b>	<b>Company 2008 US\$M</b>
Cash and due from banks	12,945	10,353
Interest-bearing deposits with banks	-	9,028
Securities purchased under resale agreements and securities borrowing transactions	41,716	43,663
Trading assets		
Debt securities	28,083	32,871
Derivative instruments	14,141	35,057
Financial assets designated at fair value through profit or loss		
Securities purchased under resale agreements and securities borrowing transactions	96,537	101,734
Other loans and receivable	-	66
Other financial assets designated at fair value through profit or loss	336	2,133
Financial assets available-for-sale	36	30
Other loans and receivables	1,483	1,483
Other assets	36,548	47,428
<b>Total</b>	<b>231,825</b>	<b>283,844</b>

# CREDIT SUISSE SECURITIES (EUROPE) LIMITED

## NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2009

### 38. Risks arising from financial instruments (continued)

#### Collateral held as security

The Group regularly agrees upon collateral in the lending contracts to be received from borrowers. Collateral is security in the form of an asset or third-party obligation that serves to mitigate the inherent risk of credit loss in an exposure, by either substituting the borrower default risk or improving recoveries in the event of a default. While collateral can be an alternative source of repayment, it does not mitigate or compensate for questionable reputation of a borrower or structure.

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

- a legal document framework that is bilaterally agreed with our clients; and
- a collateral management risk framework enforcing transparency through self-assessment and management reporting.

In substantially all cases, the valuation of the collateralized portfolio is performed daily. Exceptions are governed by the calculation frequency described in the legal documentation. The mark-to-market prices used for valuing collateral are a combination of firm and market prices sourced from trading platforms and service providers, where appropriate. The management of collateral is standardized and centralized to ensure complete coverage of traded products.

#### Primary types of collateral

Collateral securing foreign exchange transactions and OTC trading activities primarily includes:

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

Collateral securing loan transactions primarily includes:

- Financial collateral pledged against loans collateralized 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, plant and equipment.

For further information on collateral, refer to Note 36 – Assets pledged or assigned.

#### Risk Mitigation

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

#### Credit quality

The following table presents the credit quality by class of financial assets for loans, derivatives and credit risk related off-balance sheet items which are the key components subject to our credit risk management. Loans carried at fair value included in trading financial assets, financial assets designated at fair value through profit or loss or financial assets available-for-sale are not included in the following table since their ratings are reflected in the carrying value of the respective loans. OTC-derivatives, although carried at fair value, are included in the table, since the consideration of counterparty credit quality may vary between pricing models used.

CREDIT SUISSE SECURITIES (EUROPE) LIMITED  
 NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2009

**38. Risks arising from financial instruments (continued)**

**Counterparty Exposure before Collateral by Rating**

	Company 2009		Company 2008	
	US\$M	%	US\$M	%
AAA	3,035	32.0	2,989	22.0
AA+ to AA-	2,033	21.0	3,531	26.0
A+ to A-	3,305	35.0	4,949	38.0
BBB+ to BBB-	490	5.0	468	3.0
BB+ to BB-	351	4.0	998	7.0
B+ and below	321	3.0	473	4.0
	<b>9,535</b>	<b>100.0</b>	<b>13,409</b>	<b>100.0</b>

**Unsecured Exposure by Counterparty Rating**

	Company 2009		Company 2008	
	US\$M	%	US\$M	%
AAA	3,109	35.9	2,993	27.9
AA+ to AA-	2,021	23.3	3,091	28.8
A+ to A-	2,975	34.3	4,054	37.7
BBB+ to BBB-	358	4.1	141	1.3
BB+ to BB-	25	0.3	223	2.1
B+ and below	182	2.1	238	2.2
	<b>8,670</b>	<b>100.0</b>	<b>10,740</b>	<b>100.0</b>

The above table includes all unsecured commitments, derivatives, securities purchased and sold under resale and repurchase agreements, and short term cash trades for the Company as most of the trading portfolio resides in the Company.

**v) Country Risk**

Country risk is the risk of a substantial, systemic loss of value in the financial assets of a country or group of countries, which may be caused by dislocations in the credit, equity, and/or currency markets. 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 RMM 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. RMM 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.

# CREDIT SUISSE SECURITIES (EUROPE) LIMITED

## NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2009

### 38. Risks arising from financial instruments (continued)

#### vi) 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 Group manages its risk through confirmation and affirmation of transaction details with counterparties. In addition, it also 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. CRM establishes and monitors limits to control the amount of settlement risk incurred to each counterparty.

#### vii) 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.

#### viii) Operational Risk

Operational risk is the risk of loss resulting from inadequate or failed internal processes, people and 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 comprises 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, therefore, manages operational risk differently from market and credit risk. CS group believes that effective management of operational risks requires a common group-wide framework with ownership residing with the management responsible for the relevant business process.

Additionally, CS group has established a central Bank Operational Risk Oversight team within the Chief Risk Officer function that focuses on the coordination of consistent policy, tools and practices throughout CS group for the management, measurement, monitoring and reporting of relevant operational risks. This team is also responsible for the overall operational risk framework, measurement methodology and capital calculations. Knowledge and experience are shared throughout CS group to maintain a coordinated approach.

# CREDIT SUISSE SECURITIES (EUROPE) LIMITED

## NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2009

### **38. Risks arising from financial instruments (continued)**

Within CS group, each individual business and management level takes responsibility for its own operational risks and provides adequate resources and procedures for the management of those risks. Operational risk is thus controlled through a network of controls, procedures, reports and responsibilities. In addition to the quarterly firm-level CARMC meetings covering operational risk, operational risk exposures are discussed at divisional risk management committees, which have senior staff representatives from all the relevant functions. CS group utilises a number of group-wide tools for the management, measurement, monitoring and reporting of operational risk. These include: self-assessments; scenario analysis; the collection, reporting and analysis of internal and external loss data; and key risk indicator reporting.

CS group has employed the same methodology to calculate EC for operational risk since 2000, and has approval from the Swiss Financial Market Supervisory Authority to use a similar methodology for the Advanced Measurement Approach ('AMA') under the Basel II Accord. The economic capital/AMA methodology is based upon the identification of a number of key risk scenarios that describe all of the major operational risks that CS group faces.

Groups of senior staff review each scenario and discuss the likelihood of occurrence and the potential severity of loss. Internal and external loss data, along with certain business environment and internal control factors (for example, self-assessment results and key risk indicators) are considered as part of this process. Based on the output from these meetings, CS group enters the scenario probabilities and severities into an event model that generates a loss distribution. Insurance mitigation is included in the capital assessment where appropriate, by considering the level of insurance coverage for each scenario, incorporating haircuts as appropriate. Based on the loss distribution, the level of capital required to cover operational risk can then be calculated.

#### **ix) Reputational Risk**

CS group's policy is to avoid any action or transaction that brings with it a potentially unacceptable level of risk to its reputation. Reputational risk may arise from a variety of sources, including 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. Where the presence of these or other factors gives rise to potential reputational risk for CS group, the relevant business proposal is required to be submitted to CS group's Reputational Risk Review Process. This 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 authority to approve, reject, or impose conditions on CS group's participation.

### **39. Capital Adequacy**

The Group'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 deductions for such items as investments in non-consolidated subsidiaries and illiquid non-trading assets.

The Group's overall capital needs are continually reviewed to ensure that its capital base can appropriately support the anticipated needs of its businesses. The capital management framework at CS group ensures 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.

**CREDIT SUISSE SECURITIES (EUROPE) LIMITED**  
**NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2009**

**39. Capital Adequacy (continued)**

The Group made a number of changes to its capital base during the year as follows:

	<b>Group 2009 US\$M</b>	<b>Group 2008 US\$M</b>
<b>Total regulatory capital less deductions at 1 January</b>	<b>5,957</b>	<b>6,365</b>
Capital injections during the year		
Tier 1	-	1,400
Tier 2	-	(426)
	-	<b>974</b>
Other movements	754	(1,382)
<b>Total regulatory capital less deductions at 31 December</b>	<b>6,711</b>	<b>5,957</b>

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 Group calculated using methodologies set out by the FSA.

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

CREDIT SUISSE SECURITIES (EUROPE) LIMITED  
 NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2009

**39. Capital Adequacy (continued)**

**Capital Requirements**

The following table sets out details of the Group's regulatory capital resources at 31 December 2009 and 2008.

	<b>Group 2009 US\$M</b>	<b>Group 2008 US\$M</b>
Total shareholders' equity	6,335	5,682
Reconciliation to tier 1 capital		
Pension risk adjustment	(450)	(347)
Deductions	(209)	(309)
<b>Tier 1 capital less deductions</b>	<b>5,676</b>	<b>5,026</b>
Tier 2 capital:		
Upper Tier 2	900	900
Lower Tier 2	1,483	1,483
<b>Tier 2 capital</b>	<b>2,383</b>	<b>2,383</b>
Tier 1 plus Tier 2 capital	8,059	7,409
Deductions	(48)	(45)
Tier 1 plus Tier 2 capital, less deductions	<b>8,011</b>	<b>7,364</b>
<b>Tier 3 capital</b>		
Deductions from total capital	(1,300)	(1,407)
<b>Total regulatory capital less deductions</b>	<b>6,711</b>	<b>5,957</b>

**40. Subsequent events**

The UK bank payroll tax on certain compensation exceeding GBP 25,000 for 2009 was enacted on 9 April 2010 and will result in additional compensation expense of approximately US\$265M in 2010 (being a preliminary estimate). No expense has been recognised in 2009.

**UNAUDITED SUPPLEMENT TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 31 DECEMBER 2009**



**CREDIT SUISSE SECURITIES (EUROPE) LIMITED**  
**UNAUDITED SUPPLEMENT TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED**  
**31 DECEMBER 2009**

**Capital Adequacy: Basel 2 Pillar 3**

**Overview**

The Group'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.

Under a waiver agreed with the FSA, certain of the Pillar 3 disclosures need not be made by the Company as a stand-alone entity on the basis that they are included in the comparable disclosures provided on a consolidated basis by CS group (these can be found at [www.credit-suisse.com](http://www.credit-suisse.com)). This Supplement to the Group's financial statements therefore contains those quantitative disclosures that are not covered by the CS group disclosures, along with more general information on the Group's capital adequacy that is included for completeness and to provide context.

**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 deductions for such items as investments in non-consolidated subsidiaries and illiquid non-trading assets.

The Group's overall capital needs are continually reviewed to ensure that its capital base can appropriately support the anticipated needs of its businesses. The capital management framework at CS group ensures 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.

The Group made a number of changes to its capital base during the year as follows:

	<b>Group 2009 US\$M</b>	<b>Group 2008 US\$M</b>
<b>Total regulatory capital less deductions at 1 January</b>	<b>5,957</b>	<b>6,365</b>
Capital injections during the year		
Tier 1	-	1,400
Tier 2	-	(426)
	-	<b>974</b>
Other movements	754	(1,382)
<b>Total regulatory capital less deductions at 31 December</b>	<b>6,711</b>	<b>5,957</b>

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 Group calculated using methodologies set out by the FSA.

**CREDIT SUISSE SECURITIES (EUROPE) LIMITED**  
**UNAUDITED SUPPLEMENT TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED**  
**31 DECEMBER 2009**

**Capital Adequacy: Basel 2 Pillar 3 (Continued)**

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

The following table sets out details of the Group's regulatory capital resources at 31 December 2009 and 2008.

	<b>Group 2009</b>	<b>Group 2008</b>
	<b>US\$M</b>	<b>US\$M</b>
Total shareholders' equity	6,335	5,682
Reconciliation to tier 1 capital		
Pension risk adjustment	(450)	(347)
Deductions	(209)	(309)
<b>Tier 1 capital less deductions</b>	<b>5,676</b>	<b>5,026</b>
Tier 2 capital:		
Upper Tier 2	900	900
Lower Tier 2	1,483	1,483
<b>Tier 2 capital</b>	<b>2,383</b>	<b>2,383</b>
Tier 1 plus Tier 2 capital	8,059	7,409
Deductions	(48)	(45)
Tier 1 plus Tier 2 capital, less deductions	<b>8,011</b>	<b>7,364</b>
<b>Tier 3 capital</b>	<b>-</b>	<b>-</b>
Deductions from total capital	(1,300)	(1,407)
<b>Total regulatory capital less deductions</b>	<b>6,711</b>	<b>5,957</b>

**CREDIT SUISSE SECURITIES (EUROPE) LIMITED**  
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**31 DECEMBER 2009**

**Capital Adequacy: Basel 2 Pillar 3 (Continued)**

The Group's minimum Pillar 1 capital requirements under the Basel 2 framework as implemented by the FSA are as follows (comparative figures are calculated under the Basel 1 regime):

	<b>Group Basel 2 2009 US\$M</b>	<b>Group Basel 1 2008 US\$M</b>
Trading book market risk under VaR	756	1,169
Foreign currency risk	56	17
Counterparty risk - trading book	471	609
Counterparty risk - banking book	190	229
Concentration risk	406	303
Operational risk (Basic Indicator Approach)	423	382
<b>Total minimum capital requirements under Pillar 1</b>	<b>2,302</b>	<b>2,709</b>



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