



**Credit Suisse Securities
(Europe) Limited**

Annual Report 2012

Board of Directors

Noreen Doyle (Chair and Independent Non-Executive)

Gael de Boissard (CEO)

Eric Varvel

James Leigh-Pemberton

Tobias Guldemann

Chris Carpmael

Michael Hodgson

Stephen Kingsley (Independent Non-Executive)

Company Secretary

Paul E Hare

Directors' Report for the Year ended 31 December 2012

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

International Financial Reporting Standards

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

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

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

Business Review

Profile

Credit Suisse Securities (Europe) Limited (the 'Company') is a wholly owned subsidiary of Credit Suisse Investment Holdings (UK) (the 'Parent') and indirectly wholly owned subsidiary of Credit Suisse Group AG ('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, Seoul, Warsaw and Stockholm. The Frankfurt, Paris, Amsterdam, Milan, Warsaw and Stockholm branches provide equity broking and investment banking services. In addition to providing these activities, the Seoul branch has 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 Ukraine and Switzerland.

CSG, a company domiciled in Switzerland, is the ultimate parent of a worldwide group of companies (collectively referred to as the 'CS group') specialising in Investment Banking and Private Banking & Wealth Management.

As a leading financial services provider, CS group is committed to delivering its combined financial experience and expertise to corporate, institutional and government clients and high-net-worth individuals worldwide, as well as to retail clients in Switzerland. CS group serves its diverse clients through two divisions, Investment Banking, Private Banking & Wealth Management, which co-operate closely to provide holistic financial solutions based on innovative products and specially tailored advice. Founded in 1856, CS group has a truly global reach today, with operations in over 50 countries and a team of more than 47,400 employees from approximately 100 different nations.

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.

Management and governance changes

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

In addition, the Company has appointed a UK Chief Risk Officer ('CRO') and has made a series of changes to the risk governance framework as described in 'Risk Management' - page 9. Furthermore a risk committee has been established as set out in 'Internal Control and Financial Reporting' - page 7.

As in previous years employee compensation remains the subject of the CS group Remuneration Committee. The recommendations are, however, reviewed by the Company's Board of Directors. Consistent with the

requirements of the FSA Remuneration Code the Company has broadened the 'Malus clause' which is applicable to Code staff, UK Managing Directors and certain identified other employees.

Principal Product areas

The CSS(E)L Group has three principal business divisions which are managed as part of the Investment Banking Division of CS group;

- The Fixed Income division 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 division engages in a broad range of equity activities for investors including sales, trading, brokerage and market making in international equity and equity related securities, futures and both OTC and exchange traded options. Additionally, the Prime Services business provides brokerage services to hedge funds.
- The Investment Banking division's activities include financial advisory services regarding mergers and acquisitions, origination and distribution of equity and fixed income securities, leveraged finance and private equity investments and, in conjunction with the Equity and Fixed Income businesses, capital raising services.

Economic environment

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

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

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

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

The Eurozone sovereign debt crisis remained a key theme of 2012. Greek elections in May did not result in a parliamentary majority and only renewed elections in June resulted in the formation of a coalition seeking continued participation of the country in the Eurozone. In late June, Spain asked for a EUR 100

billion bailout package to recapitalise Spanish banks. European leaders agreed on further proposals to stabilise the Eurozone, including a single banking supervisory mechanism run by the ECB and authorising the European Stability Mechanism to inject funds into banks directly. The ECB's pledge to buy unlimited amounts of Eurozone government bonds helped diffuse the Eurozone debt crisis towards the end of the year as yields on Spanish and Italian bonds fell.

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

Financial Markets and sector environment

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

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

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

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

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

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

Performance

For the year ended 31 December 2012, the CSS(E)L Group reported a net loss attributable to shareholders of USD 658 million (2011: USD 694 million loss). Net revenues amounted to USD 1,680 million (2011: USD 1,951 million). After operating expenses the CSS(E)L Group reported a loss before tax of USD 428 million (2011: USD 526 million loss).

The 2012 financial performance of the CSS(E)L Group was driven by:

- Subdued market activity for most of the year with lower volatility;
- Low client risk appetite and lack of positive news impacting flow business volumes;
- Improved economic conditions towards the close of the year.

Fixed Income recorded revenues of USD 1,004 million in 2012 (2011: USD 875 million). The increase in revenues was predominantly due to Securitised Products (USD 219 million) following the strong demand for European Structured Products as investors continued to search for yield given the current low rate environment and the improvement in the macroeconomic outlook. This was offset by a reduction of USD 137 million in the Rates business primarily due to the cautiously optimistic market, continued political unrest in Africa and the intervention of the ECB and other nations to stem the Eurozone debt crisis.

The Equity division recorded revenues of USD 1,384 million in 2012 (2011: USD 1,556 million). Cash Equity revenues were USD 110 million lower in 2012 due to lower trading volumes reflecting the cautious market sentiment. Throughout the year, the political uncertainty in the Eurozone continued deterring investor confidence. A further reduction of USD 69 million was reported in the Prime Services business primarily in the Delta One business due to lower commissions and tighter financing spreads.

Investment Banking recorded revenues of USD 324 million (2011: USD 451 million). The decrease of USD 127 million year on year was mainly due to Leveraged Finance of USD 48 million and Mergers and Acquisition of USD 54 million.

The remainder of net revenues, USD 1,032 million (2011: USD 931 million) include the cost of revenue sharing agreements with other CS group companies for the year of USD 440 million (2011: USD 326 million). Additionally, net revenues include an expense of USD 567 million relating to treasury funding charges (2011: USD 669 million). This decreased cost of USD 102 million was primarily due to the repayment of USD 900 million in treasury long term subordinated debt following the debt restructuring at the start of the year.

CSS(E)L Group's operating expenses were USD 2,108 million (2011: USD 2,477 million). The reduction in expenses of USD 369 million was primarily driven by a reduction in Compensation and Benefits. Salaries reduced by USD 164 million due to a reduction in staff numbers with pension costs being lower than in 2011 by USD 73 million. General and Administrative expenses reduced USD 99 million primarily driven by a reduction in brokerage charges and clearing house fees.

Included in operating expenses is an expense of USD 34 million (2011: USD 41 million) in respect of the UK Bank Levy. The tax, applicable to all Banks and Banking groups operating in the UK, is charged on liabilities as at the statement of financial position date at a rate of 8.8 basis points for all short-term liabilities and 4.4 basis points for long-term liabilities, increasing to 13.0 and 6.5 basis points respectively in 2013.

The effective tax rate for 2012 was (53.7)% (2011: (32.0)%). The high effective tax rate for 2012 is primarily due to the impairment of the deferred tax asset.

CSS(E)L Group's total assets decreased to USD 258,150 million (2011: USD 276,582 million). This was primarily due to a decrease in financial assets at fair value through profit and loss of USD 13,229 million and cash and due from banks of USD 6,710 million.

Off-balance sheet arrangements are highlighted in Note 33 - Guarantees and Commitments.

Outlook

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

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

The impact of these actions will provide the CSS(E)L Group with opportunity for growth and stronger overall performance, particularly when economic and market conditions improve.

Fair Value Measurement

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

Total Level 3 assets for CSS(E)L Group were USD 4.1 billion (2011: USD 4.4 billion), which was equivalent to 1.60% of total assets.

Total Level 3 liabilities for CSS(E)L Group were USD 1.1 billion (2011: USD 1.3 billion) which was equivalent to 0.44% of total liabilities.

Dodd Frank Regulations

In December 2011, the Commodity Futures Trading Commission ('CFTC') finalised rules under the Dodd-Frank Act requiring regulatory and public reporting for a wide range of OTC derivatives. In addition, during 2012 the CFTC finalised many of the rules under the Dodd-Frank Act relating to the regulation of swap dealers and major swap participants. Among other things, these rules require swap dealers and major swap participants to register with and be subject to internal and external business conduct regulation by the CFTC. The Company does not intend to register with the CFTC as a major swap participant. The Company has established a process for monitoring swap exposures to US persons for purposes of maintaining such exposures below the swap exposure threshold for major swap participant registration.

Selected European credit risk exposures

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

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

31 December 2012 USD millions	Sovereign		Financial Institutions		Corporate	
	Gross Exposure	Net Exposure	Gross Exposure	Net Exposure	Gross Exposure	Net Exposure
Greece	8	8	-	-	6	1
Ireland	-	-	57	43	31	31
Italy	-	-	188	157	52	52
Portugal	28	28	25	25	31	31
Spain	40	40	110	110	45	45
Total	76	76	380	335	165	160

Capital Resources

The Company closely monitors its capital and liquidity position on a continuing basis to ensure ongoing stability and support of its business activities. This approach is consistent with the current capital regime and the forthcoming Basel III capital framework. CS group continues to provide confirmation that it will ensure that the Company is able to meet its debt obligations and maintain a sound financial position over the foreseeable future.

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

In anticipation of the implementation of Basel III, the Company's capital was restructured in February 2012. The par value of the ordinary shares has been reduced from USD 1.00 to USD 0.10 with USD 3,850 million being transferred to the share premium reserve. A new class of participating share was issued with a nominal value of USD 0.10 that ranks pari passu with the ordinary share with the exception that it does not carry voting rights. These participating shares (USD 943 million) were issued to Credit Suisse PSL GmbH to replace the USD 900 million Tier 2 subordinated loan that was repaid during the year. In addition to the capital restructuring, the Company issued capital of USD 3,280 million during the course of 2012 to address regulatory capital requirements.

Changes in capital are set out in Note 27 – Share Capital and Share Premium.

Issues of long term debt are set out in Note 25 – Long Term Debt.

Internal Control and Financial Reporting

The directors are ultimately responsible for the effectiveness of internal control in CSS(E)L Group. Procedures have been designed for safeguarding the assets; for maintaining proper accounting records; and for assuring the reliability of financial information used within the business, and for that provided to

external users. Such procedures are designed to manage rather than eliminate the risk of failure to achieve business objectives and can only provide reasonable and not absolute assurance against material misstatement, errors, losses or fraud.

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

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

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

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

Committees

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

Credit Suisse Securities (Europe) Limited Audit Committee

The purpose of the Committee is to:

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

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

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

Credit Suisse Securities (Europe) Limited Risk Committee

The purpose of the Committee is to:

- review and assess the integrity and adequacy of the risk management function of the CSS(E)L Group including processes and organisational structures;
- review and assess the CSS(E)L Group's credit risk including any large exposures;
- review the Internal Capital Adequacy Assessment Process ('ICAAP') and the Individual Liquidity Adequacy Assessment ('ILAA');
- review with the management and jointly with the Credit Suisse Securities (Europe) Limited Audit Committee, significant operational risk matters involving business processes and system infrastructure;
- review and assess the adequacy of the risk measurement methodologies including the Risk Appetite framework;
- review other major risk concentration as deemed appropriate;
- monitor the adequacy of the business continuity program;
- review with management and jointly with the Credit Suisse Securities (Europe) Limited Audit Committee, significant matters of potential reputational risk;
- review and advise on risk adjustments to remuneration schemes; and
- report significant issues to the Board.

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

Risk Management

Overview

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

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

Risk governance

The prudent taking of risk in line with the Company's strategic priorities is fundamental to its business as part of a leading global bank. To meet the challenges in a fast changing industry with new market players and innovative and complex products, the Company seeks to continuously strengthen the risk function, which is independent of, but closely interacts with, the trading functions to ensure the appropriate flow of information. In the past year, the Company has made a series of changes to the risk governance framework designed to enhance the effectiveness of controls at all levels of the organisation. These changes include the appointment of a CRO with responsibility for overseeing the Company's profile across all relevant risk types, the establishment of new risk committees at Board and senior management levels to

increase the scrutiny over the Company's risk exposures, and the introduction of new, more granular limits to provide additional controls over specific businesses, concentrations or particular risks. These changes are described in more detail below.

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

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

Risk organisation

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

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

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

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

Risk limits

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

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

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

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

The Company's financial risk management objectives and policies and the exposure of the CSS(E)L Group to market risk, credit risk, liquidity risk and currency risk are outlined in Note 38 - Financial Instruments Risk Positions.

Economic capital and position risk

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

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

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

As at 31 December 2012 the 99% Position risk was USD 846 million (2011: USD 579 million) for CSS(E)L Group which was within the agreed limit set by Board of Directors¹.

Dividends

No dividends were paid or are proposed for 2012 (2011: USD Nil).

¹ Unaudited

Directors

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

Appointment

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

Resignation

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

None of the directors who held office at the end of the financial year were directly beneficially interested, at any time during the year, in the shares of the Company. Directors of the Company 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 CSS(E)L 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 CSS(E)L Group's auditors are aware of that information.

Employment of Disabled Persons

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

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

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

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

Donations

During the year CSS(E)L Group made USD 1.2 million (2011: USD 1.1 million) of charitable donations. There were no political donations made by CSS(E)L Group during the year (2011: USD Nil).

Auditors

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

Subsequent Events

For additional Pension Fund security the Company has pledged additional securities of GBP 140 million on 27 March 2013. This would be in addition to securities of GBP 106 million pledged as at 31 December 2012.

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

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

By Order of the Board

A handwritten signature in black ink, appearing to read 'Paul E Hare', with a stylized flourish at the end.

Paul E Hare
Company Secretary

One Cabot Square
London E14 4QJ
28 March 2013

COMPANY REGISTRATION NUMBER: 891554

Statement of Directors' responsibility

The directors are responsible for preparing the Annual Report and the Financial Statements in accordance with applicable law and regulations.

Company law requires the directors to prepare CSS(E)L Group and Company Financial Statements for each financial year. Under that law they have elected to prepare both the CSS(E)L Group and Company Financial Statements in accordance with IFRSs as adopted by the EU and applicable law.

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 CSS(E)L Group and Company and of their profit or loss for that period. In preparing each of the CSS(E)L Group and 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 CSS(E)L Group and the Company will continue in business.

The directors are responsible for keeping adequate accounting records that are sufficient to show and explain the CSS(E)L Group and Company's transactions and disclose with reasonable accuracy at any time the financial position of the CSS(E)L Group and 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 CSS(E)L Group and to prevent and detect fraud and other irregularities.

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

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



Chris Carmael
Director

Independent Auditor's 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 2012 set out on pages 17 to 134. The financial reporting framework that has been applied in their preparation is applicable law and International Financial Reporting Standards (IFRSs) as adopted by the EU and, as regards the parent company ("the 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 auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the 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 auditor

As explained more fully in the Directors' Responsibilities Statement set out on page 14, the directors are responsible for the preparation of the Financial Statements and for being satisfied that they give a true and fair view. Our responsibility is to audit, and express an opinion on, the Financial Statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's (APB's) Ethical Standards for Auditors.

Scope of the audit of the Financial Statements

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

Opinion on Financial Statements

In our opinion:

- the Financial Statements give a true and fair view of the state of the Company's and of the CSS(E)L Group's affairs as at 31 December 2012 and of the CSS(E)L Group's and Company's loss for the year then ended;
- the Financial Statements have been properly prepared in accordance with IFRSs as adopted by the EU;
- the Financial Statements have been prepared in accordance with the requirements of the Companies Act 2006.

Opinion on other matters prescribed by the Companies Act 2006

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

Matters on which we are required to report by exception

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

- adequate accounting records have not been kept by the Company, or returns adequate for our audit have not been received from branches not visited by us; or
- the 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 Edmonds
(Senior Statutory Auditor)

for and on behalf of KPMG Audit Plc, Statutory Auditor
Chartered Accountants
15 Canada Square
London
E14 5GL
28 March 2013

Consolidated Statement of Income for the Year ended 31 December 2012

	Reference to note	2012	2011
Consolidated Statement of Income (USD million)			
Interest income	4	1,538	1,784
Interest expense	4	(2,158)	(2,690)
Net interest expense		(620)	(906)
Commission and fee income	5	986	1,501
Commission and fee expense	5	(119)	(136)
Net commission and fee income/(expense)		867	1,365
Net gains from financial assets/liabilities at fair value through profit or loss	6	1,879	1,817
Other revenue	7	(446)	(325)
Net revenues		1,680	1,951
Compensation and benefits	8	(1,534)	(1,804)
General and administrative expenses	9	(574)	(673)
Total operating expenses		(2,108)	(2,477)
Loss before taxes		(428)	(526)
Income tax expense	10	(230)	(168)
Net loss attributable to Credit Suisse Securities (Europe) Limited shareholders		(658)	(694)

All losses for both 2012 and 2011 are from continuing operations.

The notes on pages 26 to 134 form an integral part of the Financial Statements.

Company Statement of Income for the Year ended 31 December 2012

	Reference to note	2012	2011
Company Statement of Income (USD million)			
Interest income	4	1,538	1,784
Interest expense	4	(2,158)	(2,690)
Net interest expense		(620)	(906)
Commission and fee income	5	986	1,505
Commission and fee expense	5	(119)	(136)
Net commission and fee income/(expense)		867	1,369
Net gains from financial assets/liabilities at fair value through profit or loss	6	1,879	1,813
Other revenue	7	(446)	(325)
Net revenues		1,680	1,951
Compensation and benefits	8	(1,534)	(1,804)
General and administrative expenses	9	(574)	(673)
Total operating expenses		(2,108)	(2,477)
Loss before taxes		(428)	(526)
Income tax expense	10	(230)	(168)
Net loss attributable to Credit Suisse Securities (Europe) Limited shareholders		(658)	(694)

All losses for both 2012 and 2011 are from continuing operations.

The notes on pages 26 to 134 form an integral part of the Financial Statements.

Statement of Comprehensive Income for the Year ended 31 December 2012

CSS(E)L Group and Company			
Statement of Comprehensive Income (USD million)	Reference to note	2012	2011
Net loss		(658)	(694)
Foreign currency translation losses	26	(7)	(28)
Net gain on financial assets available-for-sale	26	1	(4)
Other comprehensive loss, net of tax		(6)	(32)
Comprehensive loss		(664)	(726)
Comprehensive loss attributable to Credit Suisse Securities (Europe) Limited shareholders		(664)	(726)

The notes on pages 26 to 134 form an integral part of the Financial Statements.

Consolidated Statement of Financial Position as at 31 December 2012

	Reference to note	2012	2011
Assets (USD million)			
Cash and due from banks		13,204	19,914
Interest bearing deposits with banks		4,112	-
Securities purchased under resale agreements and securities borrowing transactions	12	37,109	36,202
Trading financial assets at fair value through profit or loss	13	71,385	73,536
of which positive market values from derivative instruments	13	14,926	17,168
Financial assets designated at fair value through profit or loss	14	90,194	103,423
Financial assets available-for-sale	15	31	35
Other loans and receivables	16	1,483	1,575
Current tax assets		107	80
Deferred tax assets	11	248	417
Other assets	17	40,244	41,362
Goodwill	20	7	7
Property and equipment	21	26	31
Total assets		258,150	276,582
Liabilities (USD million)			
Deposits	22	4,427	4,305
Securities sold under repurchase agreements and securities lending transactions	12	33,019	34,460
Trading financial liabilities at fair value through profit or loss	13	39,617	47,257
of which negative market values from derivative instruments	13	16,571	18,479
Financial liabilities designated at fair value through profit or loss	14	82,630	87,422
Short term borrowings	23	34,095	36,416
Current tax liabilities		50	4
Deferred tax liabilities	11	-	80
Other liabilities	17	40,346	45,341
Provisions	24	11	9
Long term debt	25	15,598	16,510
Total liabilities		249,793	271,804
Shareholders' equity			
Share capital	27	2,859	4,277
Share premium	27	5,661	-
Capital contribution		5,390	5,390
Retained earnings		(5,284)	(4,626)
Accumulated other comprehensive income	26	(269)	(263)
Total shareholders' equity		8,357	4,778
Total liabilities and shareholders' equity		258,150	276,582

The notes on pages 26 to 134 form an integral part of the Financial Statements.

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



Chris Carpmael
Director

Company Statement of Financial Position as at 31 December 2012

	Reference to note	2012	2011
Assets (USD million)			
Cash and due from banks		13,203	19,812
Interest bearing deposits with banks		4,112	-
Securities purchased under resale agreements and securities borrowing transactions	12	37,109	36,202
Trading financial assets at fair value through profit or loss	13	71,923	73,708
of which positive market values from derivative instruments	13	15,507	17,454
Financial assets designated at fair value through profit or loss	14	88,370	103,261
Financial assets available-for-sale	15	31	31
Other loans and receivables	16	1,483	1,575
Current tax assets		107	80
Deferred tax assets	11	248	417
Other assets	17	41,417	40,808
Goodwill	20	7	7
Property and equipment	21	26	31
Total assets		258,036	275,932
Liabilities (USD million)			
Deposits	22	4,427	4,305
Securities sold under repurchase agreements and securities lending transactions	12	33,019	34,460
Trading financial liabilities at fair value through profit or loss	13	39,584	47,150
of which negative market values from derivative instruments	13	16,538	18,372
Financial liabilities designated at fair value through profit or loss	14	82,710	87,028
Short term borrowings	23	34,095	36,416
Current tax liabilities		50	4
Deferred tax liabilities	11	-	80
Other liabilities	17	40,325	45,325
Provisions	24	11	9
Long term debt	25	15,462	16,381
Total liabilities		249,683	271,158
Shareholders' equity			
Share capital	27	2,859	4,277
Share premium	27	5,661	-
Capital contribution		5,390	5,390
Retained earnings		(5,288)	(4,630)
Accumulated other comprehensive income	26	(269)	(263)
Total shareholders' equity		8,353	4,774
Total liabilities and shareholders' equity		258,036	275,932

The notes on pages 26 to 134 form an integral part of the Financial Statements.

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



Chris Carmael
Director

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

2012	Reference to notes	Share Capital	Share Premium	Capital contribution	Retained earnings	AOCI ¹	Total shareholders' equity
Consolidated statement of changes in equity (USD million)							
Balance at 1 January 2012		4,277	-	5,390	(4,626)	(263)	4,778
Foreign exchange translation differences		-	-	-	-	38	38
Net loss on hedges of net investments in foreign entities taken to equity		-	-	-	-	(45)	(45)
Net gain on financial assets available-for-sale		-	-	-	-	43	43
Net amount reclassified to profit or loss		-	-	-	-	(42)	(42)
Net loss recognised directly in equity		-	-	-	-	(6)	(6)
Net loss for the year		-	-	-	(658)	-	(658)
Total loss recognised for the year		-	-	-	(658)	(6)	(664)
Issuance of common shares	27	(1,418)	5,661	-	-	-	4,243
Balance at 31 December 2012		2,859	5,661	5,390	(5,284)	(269)	8,357
2011							
	Reference to notes	Share Capital	Share Premium	Capital contribution	Retained earnings	AOCI ¹	Total shareholders' equity
Consolidated statement of changes in equity (USD million)							
Balance at 1 January 2011		3,527	-	5,390	(3,932)	(231)	4,754
Foreign exchange translation differences		-	-	-	-	(23)	(23)
Net loss on hedges of net investments in foreign entities taken to equity		-	-	-	-	(5)	(5)
Net loss on financial assets available-for-sale		-	-	-	-	(4)	(4)
Net loss recognised directly in equity		-	-	-	-	(32)	(32)
Net loss for the year		-	-	-	(694)	-	(694)
Total loss recognised for the year		-	-	-	(694)	(32)	(726)
Issuance of common shares	27	750	-	-	-	-	750
Balance at 31 December 2011		4,277	-	5,390	(4,626)	(263)	4,778

¹AOCI refers to Accumulated Other Comprehensive Income

Company Statement of Changes in Equity for the year ended 31 December 2012

2012	Reference to notes	Share Capital	Share Premium	Capital contribution	Retained earnings	AOCI ¹	Total shareholders' equity
Company statement of changes in equity (USD million)							
Balance at 1 January 2012		4,277	-	5,390	(4,630)	(263)	4,774
Foreign exchange translation differences		-	-	-	-	38	38
Net loss on hedges of net investments in foreign entities taken to equity		-	-	-	-	(45)	(45)
Net loss on financial assets available-for-sale		-	-	-	-	43	43
Net amount reclassified to profit or loss		-	-	-	-	(42)	(42)
Net loss recognised directly in equity		-	-	-	-	(6)	(6)
Net loss for the year		-	-	-	(658)	-	(658)
Total loss recognised for the year		-	-	-	(658)	(6)	(664)
Issuance of common shares	27	(1,418)	5,661	-	-	-	4,243
Balance at 31 December 2012		2,859	5,661	5,390	(5,288)	(269)	8,353

2011	Reference to notes	Share Capital	Share Premium	Capital contribution	Retained earnings	AOCI ¹	Total shareholders' equity
Company statement of changes in equity (USD million)							
Balance at 1 January 2011		3,527	-	5,390	(3,936)	(231)	4,750
Foreign exchange translation differences		-	-	-	-	(23)	(23)
Net loss on hedges of net investments in foreign entities taken to equity		-	-	-	-	(5)	(5)
Net loss on financial assets available-for-sale		-	-	-	-	(4)	(4)
Net loss recognised directly in equity		-	-	-	-	(32)	(32)
Net loss for the year		-	-	-	(694)	-	(694)
Total loss recognised for the year		-	-	-	(694)	(32)	(726)
Issuance of common shares	27	750	-	-	-	-	750
Balance at 31 December 2011		4,277	-	5,390	(4,630)	(263)	4,774

¹AOCI refers to Accumulated Other Comprehensive Income

Consolidated Statement of Cash Flows for the year ended 31 December 2012

	Reference to notes	2012	2011
Cash flows from operating activities (USD million)			
Loss before tax for the period		(428)	(526)
Adjustments to reconcile net profit to net cash used in operating activities			
Non-cash items included in net profit/(loss) before tax and other adjustments:			
Impairment, depreciation and amortisation	20, 21	6	8
Pension plan charge	28	(55)	-
Foreign exchange losses / (gains)		(7)	(26)
Interest accrued on long term debt		656	747
Share-based payment expense		(445)	(465)
Cash generated before changes in operating assets and liabilities		155	264
Net (increase) /decrease in operating assets:			
Interest bearing deposits with banks		(4,112)	-
Securities purchased under resale agreements and securities borrowing transactions	12	(907)	(7,224)
Trading financial assets at fair value through profit or loss	13	2,151	17,062
Financial assets designated at fair value through profit or loss	14	13,229	(897)
Financial assets available-for-sale	15	5	(2)
Other assets and other loans and receivables	17	1,276	(5,579)
Net decrease in operating assets		11,642	3,360
Net increase /(decrease) in operating liabilities:			
Securities sold under repurchase agreements and securities lending transactions	12	(1,441)	(2,710)
Deposits	22	122	370
Short term borrowings	23	(2,321)	(11,633)
Trading financial liabilities at fair value through profit or loss	13	(7,640)	521
Financial liabilities designated at fair value through profit or loss	14	(4,792)	882
Accrued expenses and other liabilities	17	(5,136)	9,076
Provisions	24	2	4
Net decrease in operating liabilities		(21,206)	(3,490)
Income taxes paid		(122)	(48)
Pension plan contribution	28	(11)	(11)
Net cash used in operating activities		(9,970)	(451)
Cash flows from investing activities (USD million)			
Proceeds from sale of premises, equipment and intangible assets	20,21	206	198
Capital expenditure for property, equipment and intangible assets	20,21	(207)	(199)
Net cash used in from investing activities		(1)	(1)
Cash flows from financing activities (USD million)			
Repayment of long term debt (including long term debt at fair value through profit or loss)	25	(982)	(728)
Issue of shares	27	2,432	750
Share premium	27	1,811	-
Net cash generated by financing activities		3,261	22
Net decrease in cash and due from banks		(6,710)	(430)
Cash and due from banks at beginning of period		19,914	20,344
Cash and due from banks at end of period		13,204	19,914
Cash and due from banks		11,101	15,225
Demand deposits		2,103	4,689
Cash and due from banks at end of period		13,204	19,914

Company Statement of Cash Flows for the year ended 31 December 2012

	Reference to notes	2012	2011
Cash flows from operating activities (USD million)			
Loss before tax for the period		(428)	(526)
Adjustments to reconcile net profit to net cash used in operating activities			
Non-cash items included in net profit/(loss) before tax and other adjustments:			
Impairment, depreciation and amortisation	20, 21	6	8
Pension plan charge	28	(55)	-
Foreign exchange losses / (gains)		(7)	(26)
Interest accrued on long term debt		656	747
Share-based payment expense		(445)	(465)
Cash generated before changes in operating assets and liabilities		155	264
Net (increase) /decrease in operating assets:			
Interest bearing deposits with banks		(4,112)	-
Securities purchased under resale agreements and securities borrowing transactions	12	(907)	(7,224)
Trading financial assets at fair value through profit or loss	13	1,785	18,644
Financial assets designated at fair value through profit or loss	14	14,891	(2,886)
Financial assets available-for-sale	15	1	(1)
Other assets and other loans and receivables	17	(451)	(5,354)
Net decrease in operating assets		11,207	3,179
Net increase /(decrease) in operating liabilities:			
Securities sold under repurchase agreements and securities lending transactions	12	(1,441)	(2,710)
Deposits	22	122	370
Short term borrowings	23	(2,321)	(11,633)
Trading financial liabilities at fair value through profit or loss	13	(7,566)	525
Financial liabilities designated at fair value through profit or loss	14	(4,318)	760
Accrued expenses and other liabilities	17	(5,141)	9,077
Provisions	24	2	4
Net decrease in operating liabilities		(20,663)	(3,607)
Income taxes paid		(122)	(48)
Pension plan contribution	28	(11)	(11)
Net cash used in operating activities		(9,862)	(749)
Cash flows from investing activities (USD million)			
Proceeds from sale of premises, equipment and intangible assets	20,21	206	198
Capital expenditure for property, equipment and intangible assets	20,21	(207)	(199)
Net cash used in investing activities		(1)	(1)
Cash flows from financing activities (USD million)			
Repayment of long term debt (including long term debt at fair value through profit or loss)	25	(989)	(429)
Issue of shares	27	2,432	750
Share premium	27	1,811	-
Net cash generated by financing activities		3,254	321
Net decrease in cash and due from banks		(6,609)	(429)
Cash and due from banks at beginning of period		19,812	20,241
Cash and due from banks at end of period		13,203	19,812
Cash and due from banks		11,101	15,225
Demand deposits		2,102	4,587
Cash and due from banks at end of period		13,203	19,812

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

1. General

Credit Suisse Securities (Europe) Limited is domiciled in the United Kingdom. The address of the CSS(E)L Group's registered office is One Cabot Square, London, E14 4QJ. The Consolidated Financial Statements for the year ended 31 December 2012 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 CSS(E)L 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 IFRSs').

b) Basis of preparation

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

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

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

The CSS(E)L Group and the Company have unrestricted and direct access to funding sources by CSG. After making enquiries of the 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 CSS(E)L Group has adopted the following amendments in the current year:

- Amendments to IFRS 7, "Financial Instruments-Disclosures" – Transfers of Financial Assets: The amendments improved the understanding of transfer transactions of financial assets (for example, securitisations) by users of financial statements, including understanding the possible effects of any risks that may remain with the entity that transferred the assets. The amendments also require additional disclosures if a disproportionate amount of transfer transactions are undertaken around the end of a reporting period. The amendments were effective for annual periods beginning on or after 1 July 2011. As the amendments are for disclosures only, the adoption of the standard did

not have a material impact on the CSS(E)L Group's financial position, results of operation or cash flows.

Standards and Interpretations endorsed by the EU and not yet effective

The CSS(E)L Group is not yet required to adopt the following standards and interpretations which are issued by the IASB but not yet effective.

- Amendments to IAS 1 Presentation of Items of Other Comprehensive Income: In June 2011, the IASB issued "Presentation of Items of Other Comprehensive Income" (Amendments to IAS 1). The amendments require entities to group together items within Other Comprehensive Income that will and will not subsequently be reclassified to the profit or loss section of the income statement. The amendments also reaffirm existing requirements that items in Other Comprehensive Income and profit or loss should be presented as either a single statement or two consecutive statements. The amendments are effective for annual periods beginning on or after 1 July 2012. As the amendments impact presentation only, they will not have a material impact on the CSS(E)L Group's financial position, results of operations or cash flows.
- Amendments to IAS 19 Employee Benefits: In June 2011, the IASB issued Amendments to IAS 19 "Employee Benefits" (IAS 19R). Among other changes, the amendments eliminate the option that allowed an entity to defer the recognition of changes in net defined benefit liability and amend the disclosure requirements for defined benefit plans and multi-employer plans. The amendments are effective for annual periods beginning on or after 1 January 2013. The application of IAS19R would have resulted in a reduction of USD 109 million to shareholders' equity and a reduction of USD 109 million to the consolidated balance sheet, net of tax for 2012.
- IFRS 10 Consolidated Financial Statements: In May 2011, the IASB issued IFRS 10, "Consolidated Financial Statements" (IFRS 10). The objective of IFRS 10 is to establish principles for the presentation and preparation of consolidated financial statements when an entity controls one or more other entities. IFRS 10 builds on existing principles by identifying the concept of control as the determining factor in whether an entity should be included within the consolidated financial statements of the parent company. The standard provides additional guidance to assist in the determination of control where this may be difficult to assess. IFRS 10 is effective for annual periods beginning on or after 1 January 2013, however, the EU requires adoption for annual periods beginning on or after 1 January 2014. The CSS(E)L Group is currently evaluating the impact of adopting IFRS 10.
- IFRS 11 Joint Arrangements: In May 2011, the IASB issued IFRS 11 "Joint Arrangements" (IFRS 11). IFRS 11 specifies that a party to a joint arrangement determines the type of joint arrangement in which it is involved by assessing its rights and obligations. IFRS 11 is effective for annual periods beginning on or after 1 January 2013, however, the EU requires adoption for annual periods beginning on or after 1 January 2014. The CSS(E)L Group is currently evaluating the impact of adopting IFRS 11.
- IFRS 12 Disclosure of Interests in Other Entities: In May 2011, the IASB issued IFRS 12 "Disclosures of Interests in Other Entities" (IFRS 12). IFRS 12 requires entities to disclose information that enables users of the financial statements to evaluate the nature of and any associated risks of its interests in other entities and the effects of those interests on its financial position, financial performance and cash flows. IFRS 12 requires certain disclosures for subsidiaries, joint arrangements and associates and introduces new requirements for unconsolidated structured entities. IFRS 12 is effective for annual periods beginning on or after 1 January 2013, however, the EU requires adoption for annual periods beginning on or after

1 January 2014. As IFRS 12 requires disclosures only it will not have a material impact on the CSS(E)L Group's financial position, results of operation or cash flows.

- IFRS 13 Fair Value Measurement: In May 2011, the IASB issued IFRS 13 "Fair Value Measurement" (IFRS 13). IFRS 13 defines fair value, sets out a framework for measuring fair value and requires certain disclosures about fair value measurements. IFRS 13 applies to IFRSs that require or permit fair value measurements or disclosures about fair value measurements, except in specified circumstances. IFRS 13 is effective for annual periods beginning on or after 1 January 2013. The adoption of IFRS 13 on 1 January 2013 did not have a material impact on CSS(E)L Group's financial position, results of operations or cash flows.
- IFRS 7 Disclosures- Offsetting Financial Assets and Financial Liabilities: In December 2011, the IASB issued amendments to IFRS 7 "Disclosures – Offsetting Financial Assets and Financial Liabilities" (IFRS 7). The amendments require disclosures about the effect or potential effects of offsetting financial assets and financial liabilities and related arrangements on an entity's financial position. The amendments are effective for annual periods beginning on or after 1 January 2013. As the amendment requires disclosures only it will not have a material impact on the CSS(E)L Group's financial position, results of operations or cash flows.
- IAS 32 Offsetting Financial Assets and Financial Liabilities: - In December 2011, the IASB issued amendments to IAS 32 "Offsetting Financial Assets and Financial Liabilities" (IAS 32). The amendments address inconsistencies in current practice when applying the offsetting criteria in IAS 32 'Financial Instruments – Presentation'. The amendments are effective for annual periods beginning on or after 1 January 2014. The CSS(E)L Group is currently evaluating the impact of adopting the IAS 32 amendments.

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

The CSS(E)L Group is not yet required to adopt the following standards and interpretations which are issued by the IASB but not yet effective and have not yet been endorsed by the EU.

- IFRS 9 Financial Instruments: In November 2009 the IASB issued IFRS 9 "Financial Instruments" (IFRS 9) covering the classification and measurement of financial assets which introduces new requirements for classifying and measuring financial assets. In October 2010, the IASB reissued IFRS 9, which incorporated new requirements on the accounting for financial liabilities. The effective date of IFRS 9 was revised in December 2011, making it applicable for annual periods beginning 1 January 2015. The CSS(E)L Group is currently evaluating the impact of adopting IFRS 9.
- Improvements to IFRS 2012: In May 2012, the IFRS issued "Annual Improvements to IFRSs 2009-2011 Cycle", (Improvements to IFRS), which contain numerous amendments to IFRS that the IASB considers non-urgent but necessary. The Improvements to IFRS comprise amendments that result in accounting changes for presentation, recognition or measurement purposes, as well as terminology or editorial amendments related to a variety of individual standards. The Improvements to IFRS are required to be applied retrospectively for annual periods beginning on or after 1 January 2013. The CSS(E)L Group is currently evaluating the impact of the amendments.
- Transition guidance for IFRS 10, IFRS 11 and IFRS 12: In June 2012, the IASB issued 'Consolidated Financial Statements, Joint Arrangements and Disclosure of Interests in Other Entities: Transition Guidance' (Amendments to IFRS 10, IFRS 11 and IFRS 12). The amendments are intended to provide additional transition relief in IFRS 10, IFRS 11 Joint Arrangements and IFRS 12 Disclosure of Interests in Other Entities, by "limiting the requirement to provide adjusted comparative information to only the preceding comparative period". Also, amendments were made to IFRS 11 and IFRS 12 to eliminate the requirement to provide comparative information for

periods prior to the immediately preceding period. The Amendments to IFRS 10, IFRS11 and IFRS 12 are effective for annual periods beginning on or after 1 January 2013. The CSS(E)L Group will adopt the requirements of this amendment when the provisions of IFRS 10, IFRS 11 and IFRS 12 are adopted. The CSS(E)L Group is currently evaluating the impact of adopting the Amendments to IFRS 10, IFRS 11 and IFRS 12.

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

The accounting policies have been applied consistently by CSS(E)L Group entities.

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 Statement of Income, Statement of Comprehensive Income, Consolidated Statement of Financial Position, Statement of Cash Flows, Statement of Changes in Equity, and the related notes of the CSS(E)L Group.

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

The CSS(E)L Group also consolidates subsidiaries when the substance of the relationship between the CSS(E)L Group and the subsidiary indicates that the subsidiary is controlled by the CSS(E)L Group in accordance with the Standing Interpretations Committee Interpretation (SIC) No. 12, "*Consolidation – Special Purpose Entities*" (SIC 12).

The acquisition method of accounting is used to account for the acquisition of subsidiaries. The cost of an acquisition is measured at the fair value of the assets given, equity instruments issued and liabilities incurred or assumed. Acquisition related costs such as legal or consulting fees are expensed in the period in which they are incurred. The excess of the cost of an acquisition over the CSS(E)L Group's share of the fair value of the identifiable net assets acquired is recorded as goodwill. If the acquisition cost is below the fair value of the identifiable net assets (negative goodwill), a gain may be reported in other income.

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

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

d) Equity method investments

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

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

e) Foreign currency

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

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

f) Cash and due from Banks

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

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

The CSS(E)L Group holds money on behalf of clients in accordance with the client money rules of the UK's FSA. This money is included within cash and due from banks on the Statement of Financial Position and the corresponding liability is included in 'Other Liabilities'.

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

Securities purchased under resale agreements ('reverse repurchase agreements') and securities sold under resale agreements ('repurchase agreements') do not constitute economic sales and are therefore treated as collateralised financing transactions. In reverse repurchase agreements, the cash advanced,

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

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

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

h) Securities borrowing and lending transactions

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

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

i) Derivative financial instruments and hedging

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

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

The fair value recorded for derivative instruments does not indicate future gains or losses, but rather the unrealised gains and losses from valuing all derivatives at a particular point in time. The fair value of exchange-traded derivatives is typically derived from observable market prices and/or observable market parameters. Fair values for OTC derivatives are determined on the basis of internally developed proprietary models using various input parameters. Where the input parameters cannot be validated using observable market data, reserves are established for unrealised gains or losses evident at the inception of the contracts so that no gain or loss is recorded at inception. Such reserves are amortised to income over the life of the instrument or released into income when observable market data becomes available. For further information on fair value determination of derivative instruments, refer to Note 35 – Financial Instruments.

Embedded derivatives

When derivative features embedded in certain contracts that meet the definition of a derivative are not considered clearly and closely related to the host instrument, the embedded feature will be accounted for separately at fair value, with changes in fair value recorded in the Consolidated Statement of Income unless, consistent with the provisions of IAS 39, the fair value option is elected (as described in Note 2 (j))

below) or the entire hybrid instrument is classified as held for trading, in which case the entire instrument is recorded at fair value with changes in fair value recorded in the Consolidated Statement of Income. Once separated, the derivative is recorded in the same line in the Consolidated Statement of Financial Position as the host instrument.

Hedge accounting

Where hedge accounting is applied, the CSS(E)L 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 of hedged items attributable to the hedged risk on both a retrospective and prospective basis. The CSS(E)L 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 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 CSS(E)L Group otherwise determines that designation of the derivative as a hedging instrument is no longer appropriate.

Net investment hedges

For hedges of a net investment in a foreign operation, the change in the fair value of the hedging instrument 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 CSS(E)L 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.

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

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

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

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

Trading financial assets and financial liabilities include mainly debt and equity securities, derivative instruments 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.

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 CSS(E)L Group is provided internally on that basis to the entity's key management personnel. This election is used for instruments purchased or issued by business units that manage their performance on a fair value basis. For all instruments elected under this criterion, the business maintains a documented strategy that states that these instruments are risk managed on a fair value basis. Additionally, management relies upon the fair value of these instruments in evaluating the performance of the business.

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

Financial assets available-for-sale

Financial assets that are not classified at fair value through profit or loss, as loans and receivables or as held-to-maturity investments are classified as available-for-sale. Certain marketable equity securities are classified as available-for-sale.

Equity securities available-for-sale

Equity securities classified as available-for-sale are initially recognised at fair value plus transaction costs that are directly attributable to the acquisition of the securities. Securities available-for-sale are carried at fair value with the changes in fair value reported in AOCI until such investments are sold or impaired. For equity securities available-for-sale, the gain or loss is recognised in AOCI including any related foreign exchange component. Gains and losses recorded in AOCI are transferred to the Consolidated Statement of Income on disposal of assets available-for-sale and presented as other revenues. Generally, the weighted average cost method is used to determine the gain or loss on disposals. Dividend income on available-for-sale financial assets is presented in net interest income.

The CSS(E)L Group assesses at each Consolidated Statement of Financial position date whether there is objective evidence that an asset or group of assets available-for-sale is impaired. In the case of equity securities available-for-sale, objective evidence would include a significant or prolonged decline in the fair

value of the investment below cost, that is if the fair value has been below cost for more than six months or by more than 20%. Where there is evidence of impairment, the cumulative unrealised loss previously recognised in AOCI within equity is transferred to the Consolidated Statement of Income for the period and reported in other revenues. This amount is determined as the difference between the acquisition cost (net of any principal repayments and amortisation) and current fair value of the asset less any impairment loss on that investment previously recognised in the Consolidated Statement of Income. Impairment losses on equity securities available-for-sale are not reversed; increases in their fair value after impairment are recognised in AOCI.

k) Recognition and derecognition

Recognition

The CSS(E)L Group recognises financial instruments on its Consolidated Statement of Financial Position when the CSS(E)L Group becomes a party to the contractual provisions of the instrument.

Regular-way securities transactions

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

Derecognition

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

In transactions where the CSS(E)L 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 CSS(E)L Group continues to recognise the asset to the extent of its continuing involvement, determined by the extent to which it is exposed to changes in the value of the transferred asset.

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

Securitisation

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

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

l) Other loans and receivables

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

When calculating the effective interest, the CSS(E)L Group estimates cash flows considering all contractual terms of the financial instruments including premiums, discounts, fees and transactions costs but not future credit losses.

Impairment on other loans and receivables

The CSS(E)L Group assesses at each Consolidated Statement of Financial Position date whether there is objective evidence that a significant loan position or a portfolio of loans is impaired. A significant individual loan position or portfolio of loans is impaired and impairment losses are incurred if, and only if, there is objective evidence of impairment as a result of one or more loss events that occurred after the initial recognition of the asset and prior to the Consolidated Statement of Financial Position date (“a loss event”) and that loss event or events has had an impact on the estimated future cash flows of the financial asset or the portfolio that can be reliably estimated. All individually significant loans are assessed for specific impairment. Individually significant loans found not to be impaired are then collectively assessed for impairment that has been incurred, but not yet been identified. Loans that are not individually significant are assessed collectively for impairment. Loans subject to collective impairment testing are grouped to loan portfolios on the basis of similar risk, industry or country rating. Objective evidence that an individual loan is impaired can include significant financial difficulty of the borrower, default or delinquency by the borrower and indications that a borrower will enter bankruptcy. Objective evidence that a loan portfolio is impaired can include changes of the payment status of borrowers in the group or economic conditions that correlate with defaults in the group.

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

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

Write-off of loans

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

Loan commitments

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

m) Netting

The CSS(E)L Group only offsets financial assets and liabilities and presents the net amount on the Statement of Financial Position where it:

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

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

n) Income tax

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

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

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

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

Deferred tax is not recognised for the following temporary differences: the initial recognition of assets or liabilities in a transaction that is not a business combination and that affects neither accounting nor taxable

profit or loss, and differences relating to investments in subsidiaries and jointly controlled entities to the extent that it is probable that they will not reverse in the foreseeable future. In addition, deferred tax is not recognised for taxable temporary differences arising on the initial recognition of goodwill.

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

Additional income taxes that arise from the distribution of dividends are recognised at the same time as the liability to pay the related dividend arises. Information as to the calculation of income tax recognised in Statement of Income for the periods presented is included in Note 10 - Income Tax.

o) 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 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 cash-generating units for purpose of impairment testing considering the level at which goodwill is monitored for internal management purposes. An impairment loss is recognised if the carrying amount of a cash-generating unit exceeds its recoverable amount. The recoverable amount of a cash-generating unit is the greater of its value in use and its fair value less cost to sell.

Goodwill on the acquisition 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 cash-generating unit or a group of cash-generating units 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.

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

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

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

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

q) Intangible Assets

Intangible assets consist primarily of internally developed software. Expenditure on internally developed software is recognised as an asset when the CSS(E)L Group is able to demonstrate its intention and ability to complete the development and use the software in a manner that will generate future economic benefits, and can reliably measure the costs to complete the development. The capitalised costs of internally developed software include all costs directly attributable to developing the software.

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

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

r) Retirement benefit costs

The CSS(E)L 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 Consolidated Statement of Income as incurred.

The CSS(E)L 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.

s) Deposits

Deposits are overdrawn bank accounts. The amount booked to the Consolidated Statement of Financial position represents the nominal values of the deposits less any unearned discounts or nominal value plus any unamortised premiums. Subsequent measurement is at amortised cost.

t) Long term debt

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

Debt with embedded derivatives

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

u) Contingent liabilities

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

v) Provisions

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

w) Share-based payments

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

x) Other compensation plans

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

y) Interest income and expense

Interest income and expense includes interest income and expense on the CSS(E)L 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 CSS(E)L Group's trading derivatives (except for hedging relationships) and certain financial instruments classified as at fair value through profit or loss. Interest income and expense is accrued, and any related net deferred premiums, discounts, origination fees or costs are amortised as an adjustment to the yield over the life of the related asset or liability.

z) Commissions and fees

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

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

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

- Income earned on the execution of a significant act is recognised as revenue when the act is completed (these include brokerage activities as well as fees arising from negotiating, or participating in the negotiation of, a transaction for a third party, such as revenues from underwriting and fees from mergers and acquisitions and other corporate finance advisory services);
- Income earned from the provision of services is recognised as revenue as the services are provided (for example, portfolio management, granting of loan commitments where it is probable that the CSS(E)L Group will enter into a specific lending arrangement, customer trading and custody services); and
- Income which forms an integral part of the effective interest rate of a financial instrument is recognised as an adjustment to the effective interest rate (for example, certain loan commitment fees where it is probable that the CSS(E)L Group will enter into a specific lending agreement) and recorded in 'Interest income'.
- Performance linked fees or fee components are recognised when the recognition criteria are fulfilled.

Incremental costs that are directly attributable to securing investment management contracts are recognised as an asset if they can be identified separately and measured reliably and if it is probable that

they will be recovered. These assets are amortised as the CSS(E)L Group recognises the related revenue.

aa) Operating leases

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

If the CSS(E)L Group is the lessor in an operating lease it continues to present the asset subject to the lease in its Financial Statements and recognises lease income on a straight line basis over the period of the lease.

ab) Subleases

The subleases entered into by the CSS(E)L Group are exclusively operating leases. Sublease payments received are recognised through the Consolidated Statement of Income.

ac) Dividends

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

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:

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

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

Fair Value

A significant portion of the CSS(E)L Group's financial instruments (trading financial assets and liabilities, derivative instruments, financial assets and liabilities designated at fair value and financial assets available-for-sale) are carried at fair value in the Consolidated Statement of Financial Position. Related changes in the fair value are recognised in the Consolidated Statement of Income with the exception for financial assets available-for-sale, for which changes in fair value are recorded directly in equity until realised or the assets are considered impaired. Deterioration of financial markets could significantly impact the fair value of these financial instruments and the results of operations.

The fair value of the majority of the CSS(E)L 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 (CP), most investment grade corporate debt, certain high grade debt securities, exchange-traded and certain over the counter (OTC) derivative instruments and most listed equity securities.

In addition, the CSS(E)L 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 judgement, depending on liquidity, pricing assumptions, the current economic and competitive environment and the risks affecting the specific instrument. In such circumstances, valuation is determined based on management's own judgements about the assumptions that market participants would use in pricing the asset or liability, including assumptions about risk. These instruments include certain high yield debt securities, distressed debt securities, certain OTC derivatives, certain collateralised debt obligations (CDO), certain asset-backed securities (ABS) and mortgage-backed securities (MBS), non-traded equity securities, cash and synthetic life finance instruments and other long-term investments.

The fair value of financial assets and liabilities is impacted by factors such as benchmark interest rates, prices of financial instruments issued by third parties, commodity prices, foreign exchange rates and index prices or rates. In addition, valuation adjustments are an integral part of the valuation process when market

prices are not indicative of the credit quality of a counterparty, and are applied to both OTC derivatives and debt instruments.

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

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

For hybrid debt instruments with embedded derivative features, the impact of changes in the CSS(E)L Group's credit standing is considered when measuring their fair value, based on current funded debt spreads. As of the end of 2012, 62.58% and 48.94% of the total assets and total liabilities, respectively, were measured at fair value (2011: 63.98% and 49.55%, respectively). The CSS(E)L Group Level 3 assets were USD 4.1 billion (2011: USD 4.4 billion), which was equivalent to 1.60% (2011: 1.59%) of total assets and 2.56% of total assets measured at fair value (2011: 2.49%).

For further information on the fair value hierarchy and a description of the valuation techniques, refer to Note 35 - Financial instruments.

During 2012, the CSS(E)L Group changed their estimate for the valuation of certain Fixed Income collateralised derivative instruments. In determining the fair value of these derivatives, the overnight index swap ('OIS') yield curve is now used to discount future expected cash flows as opposed to the LIBOR, which was used in prior periods. This change in estimate resulted in a loss of USD 5 million (2011: USD 14 million profit).

The CSS(E)L Group does not recognise a dealer profit or unrealised gains or losses at the inception of a derivative or non-derivative transaction unless the valuation underlying the unrealised gains or losses is evidenced by quoted market prices in an active market, observable prices of other current market transactions, or other observable data supporting a valuation technique in accordance with IAS 39 AG 76.

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

Special Purpose Entities

As part of normal business, the CSS(E)L Group engages in various transactions that include entities which are considered Special Purpose Entities (SPEs). An SPE is an entity which is created to accomplish a narrow and well defined objective, often created with legal arrangements that impose strict and sometimes permanent limits on the decision making powers of their governing board, trustee or management. Such entities are required to be assessed for consolidation under IAS27 'Consolidated and separate financial instruments' and its interpretation, SIC-12 "Consolidated Special Purpose Entities".

Transactions with SPEs are generally executed to facilitate securitisation activities or to meet specific client needs, such as providing liquidity or investment opportunities, and, as part of these activities, the CSS(E)L Group may hold interests in the SPEs. Securitisation-related transactions with SPEs involve selling or purchasing assets and entering into related derivatives with those SPEs, providing liquidity, credit or other

support. Other transactions with SPEs include derivative transactions in the CSS(E)L Group's capacity as the prime broker for entities qualifying as SPEs. The CSS(E)L Group also enters into lending arrangements with SPEs for the purpose of financing client projects or the acquisition of assets. Further, the CSS(E)L Group is involved with SPEs which were formed for the purpose of offering alternative investment solutions to clients. Such SPEs relate primarily to fund-linked vehicles or fund of funds, where the CSS(E)L Group acts as structurer, manager, distributor, broker, market maker or liquidity provider.

A SPE is consolidated by the CSS(E)L Group when the substance of the relationship between the CSS(E)L Group and the SPE indicates that the SPE is controlled by the Company. In assessing control, all relevant factors are considered, including qualitative and quantitative factors for example:

Qualitative factors:

- (a) In substance, the activities of the SPE are being conducted on behalf of the CSS(E)L Group according to its specific business needs so that the CSS(E)L Group obtains benefits from the SPEs operation;
- (b) In substance, the CSS(E)L Group has the decision-making powers to obtain the majority of the benefits of the activities of the SPE or, by setting up an 'autopilot' mechanism; the CSS(E)L Group has delegated these decision-making powers;

Quantitative factors:

- (c) In substance, the CSS(E)L Group has rights to obtain the majority of the benefits of the SPE and therefore may be exposed to risks incident to the activities of the SPE; or
- (d) In substance, the CSS(E)L Group retains the majority of the residual or ownership risks related to the SPE or its assets in order to obtain benefits from its activities.

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

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

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

Contingencies and loss provisions

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

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

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

Litigation contingencies

The CSS(E)L Group is involved in a variety of legal, regulatory and arbitration matters in connection with the conduct of its businesses.

It is inherently difficult to predict the outcome of many of these matters, particularly those cases in which the matters are brought on behalf of various classes of claimants, which seek damages of unspecified or indeterminate amounts or which involve questionable legal claims. In presenting the Consolidated Financial Statements, management makes estimates regarding the outcome of legal, regulatory and

arbitration matters and takes a charge to income when losses with respect to such matters are probable and can be reasonably estimated. Charges, 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 CSS(E)L Group's defences and its experience in similar cases or proceedings, as well as the CSS(E)L Group's assessment of matters, including settlements, involving other defendants in similar or related cases or proceedings.

Allowances and impairment losses on other loans and receivables

As a normal part of its business, the CSS(E)L Group is exposed to credit risks through its lending relationships 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 CSS(E)L 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 CSS(E)L Group maintains allowances for loan losses which are considered adequate to absorb credit losses existing at the reporting date. These allowances are for incurred credit losses inherent in existing exposures and credit exposures specifically identified as impaired. The inherent loss allowance is for all credit exposures not specifically identified as impaired which, on a portfolio basis, are considered to contain incurred inherent losses. Loans are segregated by risk, industry or country rating in order to collectively estimate inherent losses. The loan valuation allowance for inherent loss is established by analysing historical and current default probabilities, historical recovery assumptions and internal risk ratings. The methodology for calculating specific allowances involves judgements at many levels, such as early identification of deteriorating credits. Extensive judgement is required in order to properly evaluate the various indicators of financial condition of a counterparty and likelihood of repayment.

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

Goodwill impairment

Recorded goodwill is not amortised, rather it is reviewed for possible impairment on an annual basis as of December 31 and at any other time that events or circumstances indicate that the carrying value of goodwill may not be recoverable. Circumstances that could trigger an impairment test include, but are not limited to:

- (i) macroeconomic conditions such as a deterioration in general economic conditions or other developments in equity and credit markets;
- (ii) industry and market considerations such as a deterioration in the environment in which the entity operates, an increased competitive environment, a decline in market-dependent multiples or metrics (considered in both absolute terms and relative to peers), and regulatory or political developments;

- (iii) other relevant entity-specific events such as changes in management, key personnel or strategy;
- (iv) a more-likely-than-not expectation of selling or disposing all, or a portion, of a cash-generating unit;
- (v) results of testing for recoverability of a significant asset group within a reporting unit;
- (vi) recognition of a goodwill impairment in the financial statements of a subsidiary that is a component of a cash-generating unit; and
- (vii) a sustained decrease in share price (considered in both absolute terms and relative to peers).

For the purpose of testing goodwill for impairment, each cash-generating unit is assessed individually. A cash-generating unit is an operating segment or one level below an operating segment, also referred to as a component. A component of an operating segment is deemed to be a cash-generating unit if the component constitutes a business for which discrete financial information is available and management regularly reviews the operating results of that component. If the fair value of a cash-generating unit exceeds its carrying value, there is no goodwill impairment. Factors considered in determining the fair value of reporting units include, among other things: an evaluation of recent acquisitions of similar entities in the market place; current share values in the market place for similar publicly traded entities, including price multiples; recent trends in the share price and those of competitors; estimates of the future earnings potential and the level of interest rates.

Estimates of the future earnings potential, and that of the reporting units, involve considerable judgement, including management's view on future changes in market cycles, the anticipated result of the implementation of business strategies, competitive factors and assumptions concerning the retention of key employees. Adverse changes in the estimates and assumptions used to determine the fair value of the Group's reporting units may result in a goodwill impairment charge in the future.

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.

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 Statement of Income. Estimating future returns on plan assets is particularly subjective since the estimate requires an assessment of possible future market returns based on the plan asset mix and observed historical returns. These estimates are determined together with the plan's investment and actuarial advisors.

The discount rate used in determining the benefit obligation is based on high-quality corporate bonds. 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.

Taxes

Tax contingencies

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

Deferred tax valuation

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

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

Share-based payments

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

Transfer Pricing

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 tax authority negotiated arrangements for current and prior periods. Management continuously assess these factors and make adjustments as required.

4. Net Interest Expense

CSS(E)L Group and Company	2012	2011
Net interest (expense)/income (USD million)		
Securities purchased under resale agreements and securities borrowing transactions	731	662
Trading financial assets at fair value through profit or loss	383	843
Other loans and receivables	105	106
Other	319	173
Interest income	1,538	1,784
Deposits	(7)	(9)
Securities sold under repurchase agreements and securities lending transactions	(975)	(780)
Trading financial liabilities at fair value through profit or loss	(50)	(493)
Short term borrowings	(428)	(649)
Long term debt	(654)	(747)
Other	(44)	(12)
Interest expense	(2,158)	(2,690)
Net interest expense	(620)	(906)

Interest income accrued on impaired financial assets during the year was Nil (2011: Nil)

5. Commissions and Fee Income

CSS(E)L Group	2012	2011
Commission and fee income (USD million)		
Underwriting	214	462
Brokerage	530	758
Underwriting and brokerage	744	1,220
Other customer services	242	281
Total commission and fee income	986	1,501
Total commission and fee expense	(119)	(136)
Net commission and fee income/(expense)	867	1,365
Company	2012	2011
Commission and fee income (USD million)		
Underwriting	214	462
Brokerage	530	758
Underwriting and brokerage	744	1,220
Other customer services	242	285
Total commission and fee income	986	1,505
Total commission and fee expense	(119)	(136)
Net commission and fee income/(expense)	867	1,369

Fee expense represents fees paid to affiliates and exchanges on exchange traded products under agency agreements.

6. Net Gains from Financial Assets/Liabilities at Fair Value through Profit or Loss

CSS(E)L Group	2012	2011
Net gains/(losses) from financial assets/liabilities at fair value through profit or loss (USD million)		
Interest rate	(399)	(707)
Foreign exchange	(65)	(276)
Equity	1,814	1,719
Net dividend income on trading financial assets and trading financial liabilities	369	352
Other	160	729
Total net gains from financial assets/liabilities at fair value through profit or loss	1,879	1,817

Of which:

Net gains/(losses) from financial assets/liabilities designated at fair value through profit or loss (USD million)		
Securities purchased under resale agreements and securities borrowing transactions	27	30
Other financial assets designated at fair value through profit or loss	191	132
of which related to credit risk	16	(17)
Securities sold under repurchase agreements and securities lending transactions	54	14
Long-term debt	(20)	(11)
Other financial liabilities designated at fair value through profit or loss	4	(3)
Total net gains from financial assets/liabilities at fair value through profit or loss	256	162

Company	2012	2011
Net gains/(losses) from financial assets/liabilities at fair value through profit or loss (USD million)		
Fixed income/Interest rate	(399)	(711)
Foreign exchange	(65)	(276)
Equity	1,814	1,719
Net dividend income on trading financial assets and trading financial liabilities	369	352
Other	160	729
Total net gains from financial assets/liabilities at fair value through profit or loss	1,879	1,813

Of which:

Net gains/(losses) from financial assets/liabilities designated at fair value through profit or loss (USD million)		
Securities purchased under resale agreements and securities borrowing transactions	27	30
Other financial assets designated at fair value through profit or loss	86	-
of which related to credit risk	-	-
Securities sold under repurchase agreements and securities lending transactions	54	14
Long-term debt	(20)	(11)
Other financial liabilities designated at fair value through profit or loss	6	-
Total net gains from financial assets/liabilities at fair value through profit or loss	153	33

7. Other Revenue

CSS(E)L Group and Company	Reference to Note	2012	2011
Other Revenue (USD million)			
Revenue sharing agreements		(440)	(326)
Loss due to premium on redemption of subordinated debt	25	(44)	-
Realised gain from financial assets available for sale		42	-
Loss from equity method investments		(4)	1
Total Other Revenue		(446)	(325)

8. Compensation and Benefits

CSS(E)L Group and Company	2012	2011
Compensation and Benefits (USD million)		
Salaries and variable compensation	1,326	1,490
Social security	180	201
Pensions	(5)	68
Other	33	45
Total Compensation and benefits	1,534	1,804

Included in the above table are amounts relating to Directors' remuneration. Further details are disclosed in Note 30 Related Parties. Staff costs and staff numbers do not differ between CSS(E)L Group and Company.

Included in Salaries and variable compensation is USD 96 million (2011: USD 115 million) relating to severance cost.

Note: The CSS(E)L Group incurs compensation and benefits costs which are recharged to the relevant CS group companies through "Expenses receivable from other Credit Suisse group companies" in Note 9.

9. General and Administrative Expenses

CSS(E)L Group and Company	Reference to Note	2012	2011
General and administrative expenses (USD million)			
Occupancy expenses		150	147
IT and machinery		230	204
Depreciation expense	21	6	8
Provisions	24	11	7
Brokerage charges and clearing house fees		218	366
Travel and entertainment		53	66
Auditors' remuneration		1	2
Professional services		314	332
UK Bank levy		34	41
Non income taxes		70	79
Marketing data, publicity and subscription		56	52
Communication expenses		43	37
Other		7	21
Expenses receivable from other Credit Suisse group companies		(619)	(689)
Total General and administrative expenses		574	673

Note: The CSS(E)L 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'. The recharges comprise of compensation and benefit expenses and general administrative expenses. See Note 30.

Auditor's remuneration

Auditor's remuneration in relation to the statutory audit amounted to USD 1.4 million (2011: USD 1.4 million). The following fees were payable by the group to the auditor, KPMG Audit Plc.

CSS(E)L Auditor's Remuneration (USD '000)	2012	2011
Fees payable to CSS(E)L Group's auditor for the audit of the CSS(E)L Group's annual accounts	1,446	1,429
Fees payable to CSS(E)L Group's auditor and its associates for other services:		
Audit-related assurance services	-	101
Other assurance services	-	320
Total Fees	1,446	1,850

10. Income Tax

CSS(E)L Group and Company	2012	2011
Current and deferred taxes (USD million)		
Current expense on losses for the period	(139)	(31)
Adjustments in respect of previous periods	(3)	(5)
Current income tax expense	(142)	(36)
Deferred tax		
Origination and reversal of temporary differences	54	(27)
Current year tax losses	160	156
Adjustments in respect of previous periods	(3)	(3)
Impairment of deferred tax asset	(275)	(213)
Effect of changes in tax rate or the imposition of new taxes	(24)	(45)
Deferred income tax expense	(88)	(132)
Income tax expense	(230)	(168)

Current tax of USD Nil (2011: USD Nil) and deferred tax of USD Nil (2011: USD Nil) were debited directly to equity. Further information about deferred income tax is presented in Note 11.

Reconciliation of taxes computed at the UK statutory rate

CSS(E)L Group and Company	2012	2011
Reconciliation of taxes computed at the UK statutory rate (USD million)		
Loss before tax	(428)	(526)
Loss before tax multiplied by the UK statutory rate of corporation tax @ 24.5% (2011: 26.5%)	105	139
Other permanent differences	(7)	9
Unrelievable foreign tax	(105)	(23)
Effect of different tax rates of operations/subsidiaries in other jurisdictions	82	(27)
Adjustments to current tax in respect of previous periods	(3)	(5)
Adjustments to deferred tax in respect of previous periods	(3)	(3)
Effect on deferred tax resulting from changes to tax rates	(24)	(45)
Impairment of deferred tax asset	(275)	(213)
Income tax expense	(230)	(168)

11. Deferred Taxes

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

On 21 March 2012, the Government announced that the corporation tax rate applicable from 1 April 2012 would be 24%. This change was enacted on 26 March 2012. The enacted reduction in the UK corporation tax rate from 27% to 25% had been incorporated in the Group's deferred tax calculations as at 31 December 2011.

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

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

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

CSS(E)L Group and Company	2012	2011
Deferred tax (USD million)		
Deferred tax liabilities	-	(80)
Deferred tax assets	248	417
Net position	248	337
Balance at 1 January, net position	337	467
Debit to income for the year	(61)	(84)
Effect of change in tax rate expensed to Statement of Income	(24)	(45)
Adjustments related to the previous year	(3)	(3)
Exchange differences	(1)	2
Balance at 31 December, net position	248	337

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

CSS(E)L Group and Company	2012	2011
Components of net deferred tax assets (USD million)		
Share-based compensation	223	224
Decelerated tax depreciation	25	25
Other short term temporary differences	18	34
Unpaid interest	153	167
Tax losses	-	109
Pensions and other post-retirement benefits	(171)	(142)
Balance at 31 December	248	417

CSS(E)L Group and Company	2012	2011
Components of net deferred tax liabilities (USD million)		
Other short term temporary differences	-	(80)
Balance at 31 December	-	(80)

Details of the tax effect of temporary differences

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

CSS(E)L Group and Company	2012	2011
Tax effect of temporary differences (USD million)		
Share-based compensation	(1)	(20)
Decelerated tax depreciation	-	1
Other short term temporary differences	65	(24)
Unpaid interest	(13)	(13)
Pensions and other post-retirement benefits	(30)	10
Deferred tax impact on losses carried forward	(109)	(86)
Total deferred tax expense in the Statement of Income	(88)	(132)

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

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

As a consequence of this evaluation, deferred tax assets of USD 733 million (2011: USD 498 million) have not been recognised. If strategies and business plans will significantly deviate in the future from current management assumptions, the current level of deferred tax assets may need to be adjusted, if full recovery of the deferred tax asset balance is no longer probable.

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

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

CSS(E)L Group and Company	2012	2011
Securities borrowed or purchased and subject to resale agreements (USD millions)		
Securities purchased under resale agreements	7,476	2,781
Deposits paid for securities borrowed	29,633	33,421
Total securities lent or sold and subject to repurchase agreements	37,109	36,202

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

CSS(E)L Group and Company	2012	2011
Securities lent or sold and subject to repurchase agreements (USD million)		
Securities sold under repurchase agreements	2,760	5,131
Deposits received for securities lent	30,259	29,329
Total securities lent or sold and subject to repurchase agreements	33,019	34,460

See Note 14 - Financial Assets and Liabilities Designated at Fair Value through Profit or Loss for Securities Borrowed, Lent and Subject to Repurchase Agreements for Securities Borrowed, Lent and Subject to Repurchase Agreements that have been held at fair value.

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 generally have terms ranging from overnight to a longer or unspecified period of maturity. The CSS(E)L Group monitors the fair value of securities received or delivered. For securities purchased under resale agreements, the CSS(E)L 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 CSS(E)L Group receives cash or securities as collateral in an amount generally in excess of the market value of securities lent. The CSS(E)L Group monitors the market value of securities borrowed, lent and securities on a daily basis and additional collateral is obtained as necessary. In the event of counterparty default, the repurchase agreement or securities lending agreement provides the CSS(E)L Group with the right to liquidate the collateral held. In the CSS(E)L Group's normal course of business substantially all of the collateral received that may be sold or repledged has been sold or repledged as of December 2012.

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

	CSS(E)L Group		Company	
	2012	2011	2012	2011
Trading financial assets at fair value through profit or loss (USD million)				
Debt securities	28,354	32,612	28,354	32,612
Equity securities	28,105	23,756	28,062	23,642
Derivative instruments	14,926	17,168	15,507	17,454
Total trading financial assets at fair value through profit or loss	71,385	73,536	71,923	73,708

	CSS(E)L Group		Company	
	2012	2011	2012	2011
Trading financial liabilities at fair value through profit or loss (USD million)				
Debt securities	12,624	19,496	12,624	19,496
Equity securities	10,422	9,282	10,422	9,282
Derivative instruments	16,571	18,479	16,538	18,372
Total trading financial liabilities at fair value through profit or loss	39,617	47,257	39,584	47,150

Debt securities primarily consist of corporate bonds and government securities.

Trading financial assets include USD 31,127 million (2011: USD 29,251 million) 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.

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

	CSS(E)L Group		Company	
	2012	2011	2012	2011
Financial assets designated at fair value through profit or loss (USD million)				
Securities purchased under resale agreements and securities borrowing transactions	87,246	99,807	87,246	99,807
Other financial assets designated at fair value through profit or loss	2,948	3,616	1,124	3,454
Total financial assets designated at fair value through profit or loss	90,194	103,423	88,370	103,261

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

For the change in fair value of reverse repurchase agreements, the CSS(E)L Group's credit exposure to the counterparties of these trades is mitigated by posted collateral and through subsequent margin calls. Accordingly, the CSS(E)L Group does not enter into hedges to mitigate credit exposure to the counterparties. Also, given that the credit exposure is eliminated to a large extent, the mark-to-market changes attributable to credit risk are insignificant.

Other 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 2012 and 31 December 2011 for the CSS(E)L Group as well as the Company equals their fair value.

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 2012 was a gain of USD 16 million for CSS(E)L Group and USD NIL for Company in the Statement of Income (2011: loss of USD 17 million for CSS(E)L Group and USD 17 million for Company). The remaining changes in fair value are mainly due to movements in market risk.

Central to the calculation of fair value for life settlement contracts, included in 'Other financial assets designated at fair value through profit or loss', is the estimate of mortality rates. Individual mortality rates are typically obtained by multiplying a base mortality curve for the general insured population provided by a professional actuarial organisation together with an individual-specific multiplier. Individual-specific multipliers are determined based on data obtained from third-party life expectancy data providers, which examine insured individual's medical conditions, family history and other factors to arrive at a life expectancy estimate.

	CSS(E)L Group		Company	
	2012	2011	2012	2011
Financial liabilities designated at fair value through profit or loss (USD million)				
Securities sold under repurchase agreements and securities lending transactions	80,235	83,593	80,236	83,593
Long term debt	590	307	590	307
Other financial liabilities designated at fair value through profit or loss	1,805	3,522	1,884	3,128
Total financial liabilities designated at fair value through profit or loss	82,630	87,422	82,710	87,028

Of the financial liabilities designated at fair value through profit or loss, securities sold under repurchase agreements and securities lending transactions were elected to alleviate an accounting mismatch while long term debt and other financial liabilities designated at fair value through profit or loss were elected because they are managed on a fair value basis.

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

The fair value of long term debt is calculated using a yield curve which reflected the CSS(E)L Group's credit rating in the market. This is achieved by adjusting the relevant yield curve by the CSS(E)L Group's credit spread, dependent on the tier of the debt, at each point in the curve to provide an own credit adjusted valuation.

The carrying amount of long term debt is USD 99 million lower than the principal amount that the CSS(E)L Group and Company would be contractually required to pay to the holder of these financial liabilities at maturity (2011: USD 70 million lower (CSS(E)L Group and Company)).

15. Financial Assets Available-For-Sale

CSS(E)L Group	2012	2011
Financial assets available-for-sale (USD million)		
Equity securities available-for-sale	23	22
Total securities available-for-sale	23	22
Other	8	13
Total financial assets available-for-sale	31	35

Company	2012	2011
Financial assets available-for-sale (USD million)		
Equity securities available-for-sale	23	22
Total securities available-for-sale	23	22
Other	8	9
Total financial assets available-for-sale	31	31

Equity securities includes investments in non-marketable exchanges and financial clearing houses whereby the CSS(E)L Group and Company are not required to hold shares as part of its membership, for which the CSS(E)L Group and Company have neither significant influence nor control over the investee. These securities are held at fair value with any unrealised gains or losses taken through equity.

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

CSS(E)L Group and Company			
Equity securities available-for-sale (USD million)	Amortised cost	Gross unrealised gains	Fair Value
31 December 2012	-	23	23
31 December 2011	-	22	22

16. Other Loans and Receivables

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

CSS(E)L Group and Company	2012	2011
Other Loans and Receivables (USD million)		
Bank	1,483	1,575
Total other loans and receivables	1,483	1,575
■ of which United Kingdom	1,483	1,501
■ of which foreign	-	74

The majority of loans and receivables are due within one year and none are past due.

17. Other Assets and Other Liabilities

	CSS(E)L Group		Company	
	2012	2011	2012	2011
Other assets (USD million)				
Brokerage receivables (refer to Note 18)	33,717	33,938	33,717	33,938
Interest and fees receivable	1,624	1,829	1,624	1,829
Cash collateral on derivative instruments	3,825	4,763	3,825	4,763
■ Banks	2,357	2,940	2,357	2,940
■ Customers	1,468	1,823	1,468	1,823
Prepaid expenses	63	59	63	59
Other	1,015	773	2,188	219
Total other assets	40,244	41,362	41,417	40,808

Other assets are mainly due within one year.

	CSS(E)L Group		Company	
	2012	2011	2012	2011
Other liabilities (USD million)				
Derivative instruments used for hedging (refer to Note 32)	6	6	6	6
Brokerage payables (refer to Note 18)	29,333	33,680	29,333	33,680
Interest and fees payable	937	1,383	937	1,383
Cash collateral on derivative instruments	7,088	6,826	7,088	6,826
■ Banks	2,816	3,350	2,816	3,350
■ Customers	4,272	3,476	4,272	3,476
Share-based compensation liability	314	244	314	244
Other	2,668	3,202	2,647	3,186
Total other liabilities	40,346	45,341	40,325	45,325

18. Brokerage Receivables and Brokerage Payables

The CSS(E)L Group recognises receivables and payables from transactions in financial instruments purchased from and sold to customers, banks, brokers and dealers. The CSS(E)L Group is exposed to a risk of loss resulting from the inability of counterparties to pay for or deliver financial instruments sold or purchased, in which case the CSS(E)L Group would have to sell or purchase, respectively, these financial instruments at prevailing market prices. To the extent that an exchange or clearing organisation acts as a counterparty to a transaction, credit risk is considered to be reduced. The CSS(E)L Group requires customers to maintain margin collateral in compliance with applicable regulatory and internal guidelines.

CSS(E)L Group and Company	2012	2011
Brokerage receivables (USD million)		
Due from customers	17,308	14,156
Due from banks, brokers and dealers	16,409	19,782
Total brokerage receivables	33,717	33,938
Brokerage payables (USD million)		
Due to customers	23,047	24,681
Due to banks, brokers and dealers	6,286	8,999
Total brokerage payables	29,333	33,680

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 (excluding debt and equity securities which have not reached their settlement date as these are recognised on settlement date of the transaction), receivables and payables from the Prime Brokerage business and cash collateral from futures trading.

Included within payables are liabilities identified as client money. The CSS(E)L Group and Company held USD 9,181 million of client money as at 31 December 2012 (2011: USD 8,860 million). This cash is recorded under 'Cash and due from banks' and 'Other assets'.

19. Significant Subsidiaries

Significant subsidiaries:

The following tables set forth the significant subsidiaries the Company owns, directly or indirectly as at 31 December 2012 and 31 December 2011:

CSS(E)L Group and Company	Country of Incorporation	% Equity Held
Subsidiaries		
Direct holdings:		
Credit Suisse Client Nominees (UK) Limited	United Kingdom	100%
Credit Suisse First Boston Trustees Limited	United Kingdom	100%
Credit Suisse First Boston PF (Europe) Limited	United Kingdom	100%

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

20. Goodwill

CSS(E)L Group and Company	2012	2011
Goodwill (USD million)		
Cost:		
Balance at beginning of period	7	7
Foreign currency translation impact	-	-
Balance at end of period	7	7
Accumulated impairment losses		
Balance at beginning of period	-	-
Foreign currency translation impact	-	-
Balance at end of period	-	-
Net book value	7	7

All goodwill is held by branches and is denominated in Euros. This is translated to USD at the reporting date.

21. Property, Equipment and Intangible Assets

CSS(E)L Group and Company	Internally				Total
	Leasehold Improvements	Developed Software	Computer Equipment	Office Equipment	
2012					
Property, equipment and intangible assets (USD million)					
Cost:					
Cost as at 1 January 2012	52	-	17	18	87
Additions	1	205	-	1	207
Disposals	-	(203)	(3)	-	(206)
Other movements	-	-	-	-	-
Cost as at 31 December 2012	53	2	14	19	88
Accumulated depreciation:					
Accumulated depreciation as at 1 January 2012	27	-	14	15	56
Charge for the year	5	-	-	1	6
Disposals	-	-	(1)	-	(1)
Other movements	1	-	-	-	1
Accumulated depreciation as at 31 December	33	-	13	16	62
Net book value as at 1 January 2012	25	-	3	3	31
Net book value as at 31 December 2012	20	2	1	3	26

CSS(E)L Group and Company 2011	Internally				Total
	Leasehold Improvements	Developed Software	Computer Equipment	Office Equipment	
Property, equipment and intangible assets (USD million)					
Cost:					
Cost as at 1 January 2011	50	-	17	19	86
Additions	1	198	-	-	199
Disposals	-	(198)	-	-	(198)
Other movements	1	-	-	(1)	-
Cost as at 31 December 2011	52	-	17	18	87
Accumulated depreciation:					
Accumulated depreciation as at 1 January 2011	21	-	14	13	48
Charge for the year	5	-	-	3	8
Disposals	-	-	-	-	-
Other movements	1	-	-	(1)	-
Accumulated depreciation as at 31 December	27	-	14	15	56
Net book value as at 1 January 2011	29	-	3	6	38
Net book value as at 31 December 2011	25	-	3	3	31

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

No interest has been capitalised in the current year within property, equipment and intangible assets (2011: USD Nil).

No impairment charges were recorded in 2012 and 2011.

Internally developed software is capitalised and transferred to Credit Suisse International.

22. Deposits

CSS(E)L Group and Company	2012	2011
Deposits (USD million)		
Non-interest bearing demand deposits	28	3,973
Interest-bearing demand deposits	434	332
Time Deposits	3,965	-
Total deposits	4,427	4,305
■ of which due to banks	4,427	4,251
■ of which due to customers	-	54

23. Short Term Borrowings

CSS(E)L Group and Company	2012	2011
Short-term borrowings (USD million)		
Short term borrowings:		
■ from banks	34,095	36,399
■ from customers	-	17
Total short term borrowings	34,095	36,416

24. Provisions

CSS(E)L Group and Company Provisions (USD million)	Property	Litigation	Total
Balance at 1 January 2012	3	6	9
Charges during the year	-	11	11
Utilised during the year	(2)	(7)	(9)
Balance at 31 December 2012	1	10	11

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

The CSS(E)L Group accrues litigation provisions (including fees and expenses of external lawyers and other service providers) in connection with certain judicial, regulatory and arbitration proceedings when reasonably possible losses, additional losses or ranges of loss are probable and reasonably estimable. The CSS(E)L Group reviews its judicial, regulatory and arbitration proceedings each quarter to determine the adequacy of its litigation provisions and may increase or release provisions based on advice of counsel. Further provisions or releases of litigation provisions may be necessary in the future as developments in such litigation, claims or proceedings warrant.

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

25. Long Term Debt

	CSS(E)L Group		Company	
	2012	2011	2012	2011
Long-term debt (USD million)				
Senior debt	11,312	11,394	11,176	11,265
Subordinated debt	4,286	5,116	4,286	5,116
Total long term debt	15,598	16,510	15,462	16,381

Senior Debt

During 2010, in response to the UK liquidity requirements required by the FSA as set out in its policy statement (PS) 09/16, new term profiles were put in place from Credit Suisse (London Branch). Accordingly, the following term issuances were raised:

CSS(E)L Group and Company		
USD 1,500 million	12 February 2010	Two issuance of USD 750 million each with interest of 3 months LIBOR plus 207/221 basis points per annum
EUR 800 million	28 June 2010	Two issuance of EUR 400 million each with interest of 3 months EURIBOR plus 200/216 basis points per annum
USD 5,900 million	21 September 2010	Two issuance of USD 2,950 million each with interest of 3 months LIBOR plus 250/275 basis points per annum
USD 1,200 million	15 September 2010	Interest rate of 3 months LIBOR plus 225/275 basis points per annum

All these issuances have a maturity period varying between 3 to 5 years.

The following debt was raised with CS Private banking Depo Centre:

CSS(E)L Group and Company		
USD 1,500 million	12 August 2010	Interest payable at 3 months LIBOR plus 253 basis points per annum having a 30 year maturity period

Exchange traded funds are being consolidated. These funds sell debt in the market. The sold portion of these funds representing USD 43 million (2011: USD 128 million) is being included as senior debt.

During 2012, Credit Suisse European Mortgage Capital Limited Series 2012-1 (Windermere XIV) has been consolidated as the majority of the risks and rewards are with CSS(E)L Group. The sold portion of notes issued by the entity is USD 93 million (2011: Nil) is being included as senior debt.

Subordinated Debt

At 31 December 2012 subordinated debt comprises an amount of USD 4,286 million (2011: USD 5,116 million). This is comprised of USD 1,500 million (2011: USD 2,400 million) advanced by Credit Suisse PSL GmbH and USD 1,983 million (2011: USD 1,983 million) advanced by Credit Suisse First Boston Finance BV. Interest capitalisation amounts to USD 803 million (2011: USD 733 million).

USD 1,187 million 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% per 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 USD 296 million from Credit Suisse First Boston Finance BV, with interest on subordinated debt payable at a fixed rate of 9.83% per 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, USD 200 million was advanced by Credit Suisse (International) Holdings AG, under a subordinated loan facility agreement for USD 1,500 million dated 14 December 2007. Interest on subordinated debt is payable at a rate of 3 months LIBOR plus 900 basis points per annum. The Company borrowed a further USD 700 million under this facility on 9 October 2008. Interest on subordinated debt of USD 700 million is payable at a rate of 3 months LIBOR plus 1050 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. The total of USD 900 million was repaid on 8 February 2012 and loss of USD 44 million was booked (Refer note 7). The repayment of loan and issuance of non-voting shares to Credit Suisse PSL GmbH was part of capital restructuring pursuant to special resolution of the Board of Directors dated 3 February 2012 (Refer note 27).

On 12 May 2010, the Company borrowed a further USD 500 million from Credit Suisse First Boston Finance BV, with interest on subordinated debt payable at a rate of 3 months LIBOR plus 365 basis points per annum. The maturity of the loan is 31 December 2033.

On 29 October 2010, USD 1,000 million was advanced by CS PSL GmbH, under a subordinated loan facility agreement for USD 1,500 million dated 29 October 2010. Interest on subordinated debt is payable at a rate of 3 months LIBOR plus 545 basis points per annum. The Company borrowed a further USD 500 million under this facility on 15 December 2010. Interest on subordinated debt of USD 500 million is payable at a rate of 3 months LIBOR plus 695 basis points per annum.

26. Accumulated Other Comprehensive Income

CSS(E)L Group and Company	Cumulative translation adjustment	Unrealised gains/(losses) on financial assets available for sale	Accumulated other comprehensive income
2012			
Accumulated other comprehensive income (USD million)			
Balance at 1 January 2012	(285)	22	(263)
Increase/(decrease):			
Foreign exchange translation differences	38	-	38
Net loss on hedges of net investments in foreign entities taken to equity	(45)	-	(45)
Net gain on financial assets available-for-sale	-	1	1
Balance at 31 December 2012	(292)	23	(269)
2011			
Accumulated other comprehensive income (USD million)			
Balance at 1 January 2011	(257)	26	(231)
Increase/(decrease):			
Foreign exchange translation differences	(23)	-	(23)
Net loss on hedges of net investments in foreign entities taken to equity	(5)	-	(5)
Net loss on financial assets available-for-sale	-	(4)	(4)
Balance at 31 December 2011	(285)	22	(263)

27. Share Capital and Share Premium

CSS(E)L Group and Company	2012	2011
Share Capital (USD million)		
Opening balance (4,277,300,000 ordinary voting shares of USD 1.00 each)	4,277	4,277
6 February 2012:		
Reduction in face value of ordinary voting shares (4,277,300,000 @ USD 0.90 each)	(3,850)	-
Issuance of participating non-voting shares (628,928,830 @ USD 0.10 each)	63	-
24 February 2012:		
Issuance of ordinary voting shares (200,000,000 @ USD 0.10 each)	20	-
29 June 2012:		
Issuance of ordinary voting shares (17,536,621,050 @ USD 0.10 each)	1,754	-
Issuance of participating non-voting shares (2,463,378,950 @ USD 0.10 each)	246	-
6 July 2012:		
Issuance of participating non-voting shares (3,486,976,227 @ USD 0.10 each)	349	-
Total called-up share capital	2,859	4,277
CSS(E)L Group and Company	2012	2011
Share Premium (USD million)		
6 February 2012:		
Reduction in face value of ordinary voting shares (4,277,300,000 @ USD 0.90 each)	3,850	-
Issuance of participating non-voting shares (628,928,830 @ USD 1.40 each)	880	-
24 February 2012:		
Issuance of ordinary voting shares (200,000,000 @ USD 1.40 each)	280	-
6 July 2012:		
Issuance of participating non-voting shares (3,486,976,227 @ USD 0.19 each)	651	-
Total share premium	5,661	-

As part of a restructuring of the Company capital structure and to further strengthen Tier 1 capital base, the following transactions occurred during 2012.

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

- 4,277,300,000 ordinary voting shares of USD 1.00 were reduced to USD 0.10 per share, with USD 428 million remaining in share capital and USD 3,850 million transferred to share premium.
- The articles were amended to create a new class of participating shares having a nominal par value of USD 0.10 and ranking pari passu with the existing ordinary shares with the exception that the new shares do not carry voting rights. 628,928,830 participating non-voting shares were issued, with USD 63 million recorded in share capital and USD 880 million recorded in share premium. The issuance of the participating shares further strengthened Tier 1 capital and as part of the transaction upper Tier 2 subordinated loans with a nominal value of USD 900 million were repaid.

On 24 February 2012, the Company issued 200,000,000 ordinary voting shares at nominal value of USD 0.10 per share, with USD 20 million recorded in share capital and USD 280 million in share premium.

On 29 June 2012, the Company issued 17,536,621,050 ordinary shares at nominal value of USD 0.10 per share, with USD 1,754 million recorded in share capital. Also, the Company issued 2,463,378,950

participating non-voting shares at nominal value of USD 0.10 per share, with USD 246 million recorded in share capital.

On 6 July 2012, the Company issued 3,486,976,227 participating non-voting shares at nominal value of USD 0.10 per share, with USD 349 million recorded in share capital and USD 651 million in share premium.

28. Retirement Benefit Obligations

The Company has several pension schemes covering substantially all employees, including Defined Benefit pension plans and Defined Contribution pension plans, mainly located in the UK but also in other European and Asian locations. The most material pension arrangement is 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 unfunded plans in Germany and France and a funded plan in Korea. In 2012, the Italian plan has not been considered in the IAS 19 consolidated report for materiality purposes and as a consequence has been reported as a change in the scope of consolidation. A full actuarial valuation is completed by independent actuaries, for these schemes once a year using the projected unit credit method and updated for each balance sheet date.

The following disclosures contain the balances for the entire defined benefit plans, including the plan sponsored by the Company in the UK, 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 Statement of Income under 'Compensation and benefits'.

Defined benefit pension and other post-retirement defined benefit plans

CSS(E)L Group and Company	2012	2011
Defined benefit pension and other post-retirement defined benefit plans (USD million)		
Current service costs on benefit obligation	8	9
Interest costs on benefit obligation	73	77
Expected return on plan assets	(130)	(110)
Amortisation of unrecognised losses	1	24
Net periodic pension costs/(credits)	(48)	-
Curtailment (gains)	(7)	-
Total periodic pension costs/(credits)	(55)	-

The following table shows the changes in the defined benefit obligation and the fair value of plan assets during 2012 and 2011, and the amounts included in the balance sheet for the Company's defined benefit pension and other post-retirement defined benefit plans as at 31 December 2012 and 2011 respectively:

CSS(E)L Group and Company	2012	2011
Defined benefit pension and other post-retirement defined benefit plans (USD million)		
Defined benefit obligation – 1 January	1,447	1,346
Current service cost	8	9
Interest cost	73	77
Curtailments ¹	(7)	-
Actuarial losses	14	47
Benefit payments	(36)	(22)
Plans deconsolidated during the year	(2)	-
Special termination benefits	1	2
Exchange rate (gains)/losses	69	(12)
Defined benefit obligation – 31 December	1,567	1,447
Fair value of plan assets – 1 January	1,869	1,416
Expected return on plan assets	130	110
Actuarial gains/(losses) on plan assets	19	380
Actual return on plan assets	149	490
Employer contributions	95	11
Benefit payments	(36)	(22)
Exchange rate gains/(losses)	94	(26)
Fair value of plan assets – 31 December	2,171	1,869
Total funded status – 31 December		
Plan assets	2,171	1,869
Defined benefit obligation related to funded plans	(1,521)	(1,411)
Funded status for funded plans	650	458
Defined benefit obligation related to non-funded plans	(46)	(36)
Funded status recognised - 31 December	604	422
Total amount recognised - 31 December		
Funded status of the plan	604	422
Unrecognised:		
Net actuarial losses	142	140
Net amount recognised – 31 December²	746	562

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

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

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

² The total net amount recognised in "Other assets – Other" and "Other liabilities – Other" in the consolidated balance sheets as of December 31, 2012 and 2011 was an overfunding/underfunding of USD 776/(30) million and USD 592/(30) million, respectively.

approximately USD 9 million. In addition the Company expects to contribute USD 1 million to its international defined benefit plans during the course of 2013.

During 2012, the Company recognised USD 15 million through the income statement for monies received from the participating entities for their portion of the lump sum contribution of USD 84 million (GBP 53 million) paid by the Company in January 2012.

In addition to the above contributions, for additional Pension Fund security, the Company has pledged securities of USD 171 million (GBP 106 million) as at 31 December 2012. These securities are included in the balances in Note 36.

As at 31 December 2012 and 2011 the pension fund plan assets hold no material amounts of Credit Suisse Group debt and equity securities.

Movement in the Prepaid Pension Asset recognised in the balance sheet:

CSS(E)L Group and Company	2012	2011
Movement in the prepaid pension asset recognised in the Consolidated Statement of Financial position (USD million)		
At 1 January	562	555
Exchange difference	31	(2)
Total expenses (as above)	56	-
Other economic events	(1)	(2)
Plans added during the year	3	-
Contributions paid	95	11
At 31 December	746	562

Assumptions

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

	CSS(E)L Group and Company	CSS(E)L Group and Company
	2012	2011
31 December in %		
Benefit obligation		
Discount rate	4.80	4.90
Retail Price Inflation	3.10	3.20
Consumer Price Inflation	2.40	2.20
Pension increases ¹	3.00	3.08
Salary increases	4.35	4.45
Net periodic pension cost		
Discount rate	4.90	5.60
Salary increases	4.45	4.70
Expected long-term rate of return on plan assets	6.50	7.50

Mortality Assumptions

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

¹ Pension earned pre 6 April 1997 are subject to pension increases on a discretionary basis, which were considered to be nil as of 31 December 2012.

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

The post-retirement mortality assumptions are as follows:

	2012	2011
Life expectancy at age 60 for current pensioners aged 60 (years)		
- Males	28.9	29.3
- Females	30.2	31.1
Life expectancy at age 60 for future pensioners currently aged 40 (years)		
- Males	30.9	32.0
- Females	32.2	33.6

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 (USD million)	Increase %	Decrease (USD million)	Decrease %
Benefit obligation				
One-percentage point change				
+ 1% / -1% Discount rate	416	27	(319)	(20)
+1% / -1% Inflation rate	278	18	(233)	(15)
+1% / -1% Salary increases rate	12	1	(11)	(1)
+1 / -1 year to life expectancy at 60	28	2	(29)	(2)
Total periodic pension cost				
One-percentage point change				
+ 1% / -1% Expected return on assets	20	NA	(20)	NA

Plan assets and investment strategy

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

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 expected rate of return on plan assets

used for the computation of the 2012 expenses was derived by aggregating the expected return for each asset class over the target asset allocation for the Fund as at 31 December 2011.

	2012		2011	
	Fair value USD million	% of total fair value of scheme assets	Fair value USD million	% of total fair value of scheme assets
Equity securities ¹	464	21.4	657	35.2
Debt securities	1,039	47.9	781	41.8
Alternative Investments (primarily swaps)	263	12.1	378	20.2
Cash	405	18.6	53	2.8
Fair value of plan assets	2,171	100.0	1,869	100.0

Balances and amounts for the current and previous periods for which the CSS(E)L Group prepared IFRS accounts are as follows:

31 December	CSS(E)L Group and Company				
	2012	2011	2010	2009	2008
Defined benefit obligation	1,567	1,447	1,346	1,209	905
Fair value of plan assets	2,171	1,869	1,416	1,191	1,019
Funded status, surplus/(deficit)	604	422	70	(18)	114
Experience gains / (losses) on plan liabilities ²	4	(7)	(31)	60	(44)
Experience gains/(losses) on plan assets	19	380	38	(153)	(209)

Defined Contribution Pension Plans

The Company also contributes to various defined contribution pensions primarily in the United Kingdom. The contributions in these plans during 2012 and 2011 were USD 67 million and USD 68 million respectively.

29. Employee Share-based Compensation and Other Compensation Benefits

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

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

Total compensation expense for cash-settled share-based compensation plans recognised during 2012 and 2011 was USD 188 million and USD 131 million respectively. The total stock award liability recorded

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

² 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.

as at 31 December 2012 was USD 314 million (2011: USD 244 million). The fair value used to calculate the stock award liability was the closing Credit Suisse Group share price as at 31 December 2012 CHF 22.26 (2011: CHF 22.07). The average weighted fair value of awards granted in 2012 was CHF 20.91 (2011: CHF 41.96). The intrinsic value of vested share based awards outstanding as at year end was USD 56 million (2011: USD 41 million).

Performance Share Awards

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

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

CSS(E)L Group and Company

Number of units (millions)	2012	2011
As at 1 January	-	-
Granted	3.18	-
Shares transferred in/out	-	-
Delivered	-	-
Forfeited	(0.10)	-
As at 31 December	3.08	-

Phantom Share Awards

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

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

The share awards include other awards, such as blocked shares, and special awards, which may be granted to new employees. These awards entitle the holder to receive one CSG share, subject to

continued employment with the Company, contain restrictive covenants and cancellation provisions and generally vest between zero and five years.

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

Movements in the number of units outstanding were as follows:

CSS(E)L Group and Company		
Number of units (millions)	2012	2011
As at 1 January	6.75	2.70
Granted	2.54	6.37
Shares transferred in/out	-	0.04
Delivered	(2.50)	(2.06)
Forfeited	(0.28)	(0.30)
As at 31 December	6.51	6.75

Plus Bond awards

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

The Plus Bonds were fully vested and expensed as of the grant date of December 31, 2012. Compensation expense will continue to be updated at each reporting period date to reflect any change in the underlying fair value of the Plus Bond awards until the awards are finally settled. Total compensation expense recognised during the year ended December 31, 2012 was USD 36.8 million. There is no unrecognised compensation expense as of December 31, 2012.

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

Cash Retention Awards

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

2011 Partner Asset Facility

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

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

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

In January 2012, CSG awarded PAF2 units and the associated compensation expenses were fully expensed in the first quarter of 2012 as the awards were fully vested as of March 31, 2012. Compensation expense will continue to be updated at each reporting period date to reflect any change in the underlying fair value of the PAF2 awards until the awards are finally settled. Total compensation expense recognised during the year ended December 31, 2012 was USD 120 million (2011: USD NIL). There is no unrecognised compensation expense as of December 31, 2012.

Restricted Cash Awards ('RCA')

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

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

On January 20, 2011, the Company granted Restricted Cash Awards with a two-year vesting period. Total compensation expense recognised during the year ended December 31, 2012 was USD 14 million (2011: USD 81 million). There is no unrecognised compensation expense as of December 31, 2012.

Adjustable Performance Plan Awards ('APPA')

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

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

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

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

Total compensation expense recognised for Adjustable Performance Plan cash awards during the year ended December 31, 2012 was USD 54 million (2011: USD 243 million).

CSS(E)L Group and Company

Number of units (millions)	2012	2011
As at 1 January	-	-
Granted	3.94	-
Shares transferred in/out	0.01	-
Delivered	-	-
Forfeited	-	-
As at 31 December	3.95	-

Incentive Share Unit ('ISU')

The Incentive Share Units ("ISUs") were the main form of share-based variable deferred compensation for all employees from 2006 to 2009. An ISU is similar to a share, but offers additional upside depending on the development of the CSG share price, compared to predetermined targets set on the grant date. For each ISU granted, the employee will receive at least one CSG share (ISU base unit) over a three-year period vesting and could receive additional shares (ISU leverage unit) at the end of the three-year vesting period. The number of ISU leverage units to be converted to additional shares is calculated by multiplying the total number of ISU base units granted, less forfeitures, by a share price multiplier. The share price multiplier is determined based on the actual increase in the weighted-average monthly share price during the contractual term of the award versus the share price at grant date. One third of the ISU base units vests at the first anniversary of the grant date, one third at the second anniversary of the grant date and one third at the third anniversary. The ISU leverage units vest only on the third anniversary of the grant date. Shares are delivered shortly after the ISU base units and the ISU leverage units vest. ISUs include a two-year moratorium on early retirement, determined after the grant date. For the ISUs granted in January

2010, the number of additional shares per ISU was capped at a maximum of three times the grant value, with a delivery of no more than five shares.

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

Movements in the number of ISUs outstanding were as follows:

CSS(E)L Group and Company

ISUs outstanding (millions)	2012		2011	
	Base	Leverage	Base	Leverage
As at 1 January	1.54	3.38	5.26	9.46
Granted				
Share transferred in/out	(0.03)	(0.03)	(0.02)	(0.02)
Delivered	(1.26)	(2.53)	(3.61)	(5.51)
Forfeited	(0.04)	(0.22)	(0.09)	(0.55)
As at 31 December	0.21	0.60	1.54	3.38

Scaled Incentive Share Unit ('SISU')

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

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

Movements in the number of SISUs outstanding were as follows:

CSS(EL) Group and Company				
Number of SISUs (millions)	2012		2011	
	Base	Leverage	Base	Leverage
As at 1 January	2.41	3.01	3.40	3.38
Granted	-	-	-	-
Share transferred in/out	(0.01)	(0.01)	-	-
Delivered	(0.84)	-	(0.84)	-
Forfeited	(0.02)	(0.50)	(0.15)	(0.37)
As at 31 December	1.54	2.50	2.41	3.01

2008 Partner Asset Facility ('PAF')

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

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

The PAF awards, which have a contractual term of eight years, are fully vested. 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 grant date, the PAF holders will receive an annual cash payment equal to 20% of the notional value of the PAF awards if the fair market value of the Asset Pool in that year has not declined below the initial fair market value of the Asset Pool. In the final year of the contractual term, the PAF holders will receive a final settlement in cash equal to the notional value, less all previous cash payments made to the PAF holder, plus any related gains or less any related losses on the liquidation of the Asset Pool.

Compensation expense will be updated at each reporting period date to reflect any change in the underlying fair value of the PAF awards until the awards are finally settled. Total compensation expense recognised during the year ended December 31, 2012 was USD 41 million (2011: USD 4 million). There is no unrecognised compensation expense as of December 31, 2012.

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

Performance Incentive Plan units (PIPs)

As part of its annual incentive performance bonus process for 2004 and 2005, the 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 settled for a specified number of registered CSG shares subsequent to the fifth anniversary of the grant date based on the achievement of: (i) earnings performance as compared to predefined targets (performance conditions); and (ii) CSG share price performance compared to predefined targets and CSG share price performance relative to peers (market conditions). The performance conditions determine the multiplier used to convert the initial PIP units into the final number of PIP units. The market conditions determine the number of CSG shares that each final PIP unit will convert into at settlement.

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

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

PIP Units (millions)	CSS(E)L Group and Company	
	2012	2011
As at 1 January	-	0.72
Delivered	-	(0.72)
As at 31 December	-	-

Stock 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 Credit Suisse Group AG Master Share Plan, as of January 2004, options over Credit Suisse Group Registered Shares are only granted to employees located in Italy. The exercise price is the higher of the market value of Credit Suisse Group AG Registered Shares on date of grant or the average share price of Credit Suisse Group 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 Credit Suisse Group AG 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:

	2012		2011	
	in Units	Weighted average exercise price (CHF)	in Units	Weighted average exercise price (CHF)
At 1 January	92,443	CHF 52.43	92,443	52.43
Granted	-	CHF 0.00	-	-
Exercised	-	CHF 0.00	-	-
Forfeited	-	CHF 0.00	-	-
At 31 December	92,443	CHF 52.43	92,443	52.43

The number of options exercisable as at year end was 92,443 (2011: 92,443). The average weighted exercise price of options exercisable at year end was CHF 52.43 (2011: CHF 52.43). The intrinsic value of vested options outstanding as at year end was USD NIL (2011: USD NIL).

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

	Exercise Price (CHF)	31 December 2012	31 December 2011
Jan 2004 Options	CHF 47.75	15,731	15,731
Jan 2005 Options	CHF 48.05	60,345	60,345
Jan 2006 Options	CHF 73.06	16,367	16,367
		92,443	92,443

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), which 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 its intercompany relationships.

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 'Expenses 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.

Transactions with CS Investment Holdings (UK) have been reported as 'Parent' and with other CS group companies are under 'Fellow group companies'.

a) Related party assets and liabilities

CSS(E)L Group	31 December 2012			31 December 2011		
	Parent	Fellow group companies	Total	Parent	Fellow group companies	Total
Assets (USD million)						
Cash and due from banks	-	11,353	11,353	-	15,566	15,566
Interest bearing deposits with banks	-	4,112	4,112	-	-	-
Securities purchased under resale agreements and securities borrowing transactions	-	30,152	30,152	-	28,979	28,979
Trading financials assets designated at fair value through profit or loss	-	11,472	11,472	-	12,032	12,032
Financial assets designated at fair value through profit or loss	-	18,824	18,824	-	13,367	13,367
Other loans and receivables	-	1,483	1,483	-	1,575	1,575
Other assets	-	9,787	9,787	-	11,235	11,235
Total assets	-	87,183	87,183	-	82,754	82,754
Liabilities (USD million)						
Deposits	-	3,980	3,980	-	3,979	3,979
Securities sold under repurchase agreements and securities lending transactions	-	22,391	22,391	-	19,488	19,488
Trading financial liabilities designated at fair value through profit or loss	-	11,407	11,407	-	12,084	12,084
Financial liabilities designated at fair value through profit or loss	-	31,564	31,564	-	33,847	33,847
Short term borrowings	-	34,095	34,095	-	36,387	36,387
Other liabilities	-	8,560	8,560	-	11,627	11,627
Long term debt	-	15,462	15,462	-	16,381	16,381
Share capital	2,201	658	2,859	4,277	-	4,277
Share premium	4,130	1,531	5,661	-	-	-
Capital contribution	5,390	-	5,390	5,390	-	5,390
Total liabilities	11,721	129,648	141,369	9,667	133,793	143,460

Company

	31 December 2012				31 December 2011			
	Parent	Fellow group companies	Subsidiaries and SPEs	Total	Parent	Fellow group companies	Subsidiaries and SPEs	Total
Assets (USD million)								
Cash and due from banks	-	11,353	-	11,353	-	15,566	-	15,566
Interest bearing deposits with banks	-	4,112	-	4,112	-	-	-	-
Securities purchased under resale agreements and securities borrowing transactions	-	30,152	-	30,152	-	28,979	-	28,979
Trading financials assets designated at fair value through profit or loss	-	11,472	30	11,502	-	12,032	285	12,317
Financial assets designated at fair value through profit and loss	-	18,824	375	19,199	-	13,367	1,997	15,364
Other loans and receivables	-	1,483	-	1,483	-	1,575	-	1,575
Other assets	-	9,787	-	9,787	-	11,235	-	11,235
Total assets	-	87,183	405	87,588	-	82,754	2,282	85,036
Liabilities (USD million)								
Deposits	-	3,980	-	3,980	-	3,979	-	3,979
Securities sold under repurchase agreements and securities lending transactions	-	22,391	-	22,391	-	19,488	-	19,488
Trading financials liabilities designated at fair value through profit or loss	-	11,407	(32)	11,375	-	12,054	30	12,084
Financial liabilities designated at fair value through profit and loss	-	31,564	(13)	31,551	-	33,834	-	33,834
Short term borrowings	-	34,095	-	34,095	-	36,387	-	36,387
Other liabilities	-	8,560	-	8,560	-	11,627	-	11,627
Long term debt	-	15,462	-	15,462	-	16,381	-	16,381
Share Capital	2,201	658	-	2,859	4,277	-	-	4,277
Share premium	4,130	1,531	-	5,661	-	-	-	-
Capital contribution	5,390	-	-	5,390	5,390	-	-	5,390
Total liabilities	11,721	129,648	(45)	141,324	9,667	133,750	30	143,447

Related party off-balance sheet transactions

CSS(E)L Group and Company (USD million)	31 December 2012			31 December 2011		
	Parent	Fellow group companies	Total	Parent	Fellow group companies	Total
Credit Guarantees	-	291	291	-	283	283
Other Commitments, net	-	5,830	5,830	-	12,225	12,225
Forward reverse repurchase agreements with maturity <1 year	-	9,342	9,342	-	2,237	2,237
Total	-	15,463	15,463	-	14,745	14,745

b) Related party revenues and expenses

CSS(E)L Group (USD million)	31 December 2012			31 December 2011		
	Parent	Fellow group companies	Total	Parent	Fellow group companies	Total
Interest income	-	524	524	-	489	489
Interest expense	-	(1,425)	(1,425)	-	(1,708)	(1,708)
Net interest expense	-	(901)	(901)	-	(1,219)	(1,219)
Commissions and fee income	-	(19)	(19)	-	(45)	(45)
Revenue sharing agreements' expense	-	(484)	(484)	-	(325)	(325)
Total non interest revenues	-	(503)	(503)	-	(370)	(370)
Net operating expense	-	(1,404)	(1,404)	-	(1,589)	(1,589)
Total operating expenses	-	(719)	(719)	-	(699)	(699)

c) Remuneration

Disclosure required by the Companies Act 2006

Remuneration of Directors

	2012	2011
	USD'000	USD'000
Emoluments	1,915	3,693
Long term incentive schemes:		
Amounts Paid under Deferred Cash Awards	2,930	2,235
Amounts Delivered under Share Based Awards	3,681	5,643
Total	8,526	11,571
Compensation for loss of office	3,295	-
Bank's contributions to defined contribution plan	79	117
Total	11,900	11,688

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

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

The aggregate of emoluments and deferred cash awards paid to or receivable by the highest paid director was USD 4,981,000 (2011: USD 3,238,000). The director was also a member of a defined contribution pension plan and the contribution paid during the year into the plan was USD 8,000 (2011: USD 20,000). During the year the highest paid director also received an entitlement to shares under a long term incentive scheme.

The amounts included in the Companies Act disclosures are on a different basis than the recognition requirements of IFRS 2 and IAS 37 and the disclosure requirements of IAS 24. The aggregate amount of remuneration accrued in the Company's accounts for directors in accordance with IFRS requirements for 2012 was USD 11,816,000 (2011: USD 11,171,000).

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

Remuneration of Key Management Personnel

	2012	2011
Remuneration of Key Management Personnel (USD' 000)		
Emoluments	8,278	11,179
Long term incentive schemes	26,842	19,565
Total	35,120	30,744
Compensation for loss of office	4,202	-
Bank's contributions to defined contribution plan	193	564
Total	39,515	31,308

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

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

CSG Shares awarded to Key Management Personnel

	2012	2011
Number of shares	993,411	622,358

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

Key management personnel are those persons having authority and responsibility for planning, directing and controlling the activities of the CSS(E)L Group, directly or indirectly, including any director of the CSS(E)L Group.

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

d) 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 CSS(E)L Group at 31 December 2012 (2011: USD Nil).

31. Employees

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

CSS(E)L Group and Company	2012	2011
	Number	Number
Front office	1,434	1,625
Back office	3,470	3,505
Total	4,904	5,130

The CSS(E)L Group receives a range of services from related CS group. The headcount related to these services received cannot be accurately ascertained and is not therefore included in the above numbers. Additionally CSS(E)L is the main CS employing company in the UK and provides a number of services to other related CS group companies. The headcount related to these services cannot be accurately segregated and is therefore included in the above numbers.

32. Derivatives and Hedging Activities

Derivatives are generally either privately negotiated OTC contracts or standard contracts transacted through regulated exchanges. The CSS(E)L 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 CSS(E)L 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.

On the date the derivative contract is entered into, the CSS(E)L Group designates the derivative as belonging to one of the following categories:

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

Trading Activities

The CSS(E)L 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 CSS(E)L Group's derivatives held as at 31 December 2012 were used for trading activities.

Economic Hedges

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

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

Net Investment Hedges

The CSS(E)L 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 CSS(E)L Group and Company as at 31 December 2012 was a liability of USD 5.8 million (2011: USD 5.8 million).

Hedge effectiveness assessment

The CSS(E)L 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 CSS(E)L 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 CSS(E)L Group to determine whether or not the hedging relationship has actually been effective. If the CSS(E)L 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.

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

CSS(E)L Group	31 December 2012				31 December 2011			
	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
Trading and hedging derivatives instruments (USD million)								
Forwards and forward rate agreements	4	2	-	-	23	23	-	-
Swaps	8,256	9,427	-	-	8,876	10,277	-	-
Options bought and sold (OTC)	13	16	-	-	35	38	-	-
Options bought and sold (traded)	27	31	-	-	2	1	-	-
Interest rate products	8,300	9,476	-	-	8,936	10,339	-	-
Forwards and forward rate agreements	707	580	-	6	998	982	-	6
Swaps	1,395	1,441	-	-	1,558	1,552	-	-
Options bought and sold (OTC)	83	83	-	-	118	118	-	-
Foreign exchange products	2,185	2,104	-	6	2,674	2,652	-	6
Forwards and forward rate agreements	6	6	-	-	3	1	-	-
Swaps	3,567	3,781	-	-	3,553	3,935	-	-
Options bought and sold (OTC)	166	182	-	-	196	312	-	-
Options bought and sold (traded)	106	181	-	-	525	494	-	-
Equity/indexed-related products	3,845	4,150	-	-	4,277	4,742	-	-
Credit Swaps	77	67	-	-	263	247	-	-
Life Finance Related Mortality Swaps	610	865	-	-	1,018	499	-	-
Other products	610	865	-	-	1,018	499	-	-
Total derivative instruments	15,017	16,662	-	6	17,168	18,479	-	6
					2012		2011	
					Positive replacement value	Negative replacement value	Positive replacement value	Negative replacement value
Replacement values (USD million)								
Replacement values (trading and hedging) before netting					15,017	16,668	17,168	18,485
Replacement values (trading and hedging) after netting					14,926	16,577	17,168	18,485

Company	31 December 2012				31 December 2011			
	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
Trading and hedging derivatives instruments (USD million)								
Forwards and forward rate agreements	4	2	-	-	23	23	-	-
Swaps	8,256	9,427	-	-	8,876	10,201	-	-
Options bought and sold (OTC)	13	16	-	-	35	38	-	-
Options bought and sold (traded)	27	31	-	-	2	1	-	-
Interest rate products	8,300	9,476	-	-	8,936	10,263	-	-
Forwards and forward rate agreements	707	579	-	6	998	982	-	6
Swaps	1,395	1,441	-	-	1,558	1,552	-	-
Options bought and sold (OTC)	83	83	-	-	118	118	-	-
Foreign exchange products	2,185	2,103	-	6	2,674	2,652	-	6
Forwards and forward rate agreements	6	6	-	-	3	1	-	-
Swaps	3,567	3,781	-	-	3,553	3,935	-	-
Options bought and sold (OTC)	166	182	-	-	196	312	-	-
Options bought and sold (traded)	106	181	-	-	525	494	-	-
Equity/indexed-related products	3,845	4,150	-	-	4,277	4,742	-	-
Credit Swaps	77	67	-	-	263	247	-	-
Life Finance Related Mortality Swaps	1,191	832	-	-	1,304	468	-	-
Other products	1,191	832	-	-	1,304	468	-	-
Total derivative instruments	15,598	16,628	-	6	17,454	18,372	-	6

Replacement values (USD million)	2012		2011	
	Positive replacement value	Negative replacement value	Positive replacement value	Negative replacement value
	Replacement values (trading and hedging) before netting	15,598	16,634	17,454
Replacement values (trading and hedging) after netting	15,507	16,544	17,454	18,378

33. Guarantees and Commitments

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

CSS(E)L Group and Company	Maturity				Total gross amount	Collateral received	Net of collateral
	<year	1-3 years	3-5 years	>5 years			
31 December 2012							
Guarantees (USD million)							
Credit guarantees and similar instruments	-	-	-	291	291	-	291
Total guarantees	-	-	-	291	291	-	291

CSS(E)L Group and Company	Maturity				Total gross amount	Collateral received	Net of collateral
	<year	1-3 years	3-5 years	>5 years			
31 December 2012							
Other commitments (USD million)							
Forward reverse repurchase agreements with maturity <1 year	42,892	-	-	-	42,892	-	42,892
Total other commitments	42,892	-	-	-	42,892	-	42,892

CSS(E)L Group and Company	Maturity				Total gross amount	Collateral received	Net of collateral
	<year	1-3 years	3-5 years	>5 years			
31 December 2011							
Guarantees (USD million)							
Credit guarantees and similar instruments	-	-	-	283	283	-	283
Total guarantees	-	-	-	283	283	-	283

CSS(E)L Group and Company	Maturity				Total gross amount	Collateral received	Net of collateral
	<year	1-3 years	3-5 years	>5 years			
31 December 2011							
Other commitments (USD million)							
Forward reverse repurchase agreements with maturity <1 year	27,543	-	-	-	27,543	-	27,543
Total other commitments	27,543	-	-	-	27,543	-	27,543

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

Lease Commitments

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

CSS(E)L Group and Company	2012		2011	
	Total	of which rental	Total	of which rental
Operating lease commitments (USD million)				
Up to 1 year	42	37	34	31
From 1 year and no later than 5 years	145	129	146	134
From 5 years and over	440	393	437	397
Future operating lease commitments	627	559	617	562
Less minimum non-cancellable sublease rentals	-	-	-	-
Total net future minimum lease commitments	627	559	617	562

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

CSS(E)L Group and Company	2012		2011	
	Total	of which rental	Total	of which rental
Net rental expense (USD million)				
Minimum rentals	38	33	42	38
Sublease rental income	-	-	-	-
Total net rental expenses	38	33	42	38

During the year, there was no sublease rental income resulting from the cessation of the sub lease arrangement.

Contingent Liabilities and Other Commitments

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 liabilities, if any, resulting from these proceedings will not significantly prejudice the financial position of the Company and have been provided for where deemed necessary in accordance with accounting policy.

34. Securitisations, Special Purpose Entities and Other Structured Transactions

The CSS(E)L 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 CSS(E)L Group consolidates SPEs when the substance of the relationship between the CSS(E)L Group and the SPE indicates that the SPE is controlled by the CSS(E)L Group. Consideration is given to the CSS(E)L Group's ability to control the activities of the SPE and the CSS(E)L Group's exposure to the risks and benefits of the SPE. SPE exposures as at the end of 2012 are as follows:

	2012	2011
Consolidated SPEs (USD million)		
Financial intermediation	1,985	2,942
Total assets of consolidated SPEs	1,985	2,942

	2012	2011
Non-consolidated SPEs (USD million)		
CDO	1,620	905
Financial intermediation	36,831	24,130
Total assets of non-consolidated SPEs	38,451	25,035

Non - Consolidated SPE

	2012	2011
Total maximum exposure to loss of non-consolidated SPEs		
CDO	146	7
Financial intermediation	786	2,308

The Company considers all possible trigger events which would impact upon the control of an SPE as set out in Note 3, including those the Company does not currently consolidate, and reflect this in the current determination as to whether or not the Company should consolidate.

The non-consolidated SPEs are where the Company has a continuing involvement with the SPE, including both, the Company sponsored and third party sponsored, and does not have the majority of the risks and rewards of ownership. The aggregate Statement of Financial Position value (including amounts held with the Company) in relation to Consolidated SPEs is shown below.

Consolidated SPEs

CSS(E)L Group	2012	2011
Assets (USD million)		
Cash and due from banks	-	99
Trading financial assets at fair value through profit or loss	45	126
Financial assets designated at fair value through profit or loss	1,690	2,159
Financial assets available-for-sale	-	5
Other assets	250	553
Total assets	1,985	2,942
Liabilities (USD million)		
Trading financial liabilities at fair value through profit or loss	64	406
Financial liabilities designated at fair value through profit or loss	389	2,392
Long term debt	136	129
Other liabilities	22	16
Total liabilities	611	2,943
Shareholders' equity		
Capital	1,028	-
Retained earnings	346	(1)
Total shareholders' equity	1,374	(1)
Total liabilities and shareholders' equity	1,985	2,942

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

35. Financial Instruments

Fair value of financial instruments carried at fair value

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

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

The fair value of financial assets and liabilities is impacted by factors such as benchmark interest rates, prices of financial instruments issued by third parties, commodity prices, foreign exchange rates and index prices or rates. In addition, valuation adjustments are an integral part of the valuation process when market

prices are not indicative of the credit quality of a counterparty, and are applied to both OTC derivatives and debt instruments. The impact of changes in a counterparty's credit spreads (known as credit valuation adjustments 'CVA') is considered when measuring the fair value of assets and the impact of changes in the CSS(E)L Group's own credit spreads (known as debit valuation adjustments 'DVA') is considered when measuring the fair value of its liabilities. For OTC derivatives, the impact of changes in both the CSS(E)L Group's and the counterparty's credit standing is considered when measuring their fair value, based on current CDS prices. The adjustments also take into account contractual factors designed to reduce the CSS(E)L Group's credit exposure to a counterparty, such as collateral held and master netting agreements. For hybrid debt instruments with embedded derivative features, the impact of changes in the CSS(E)L Group's credit standing is considered when measuring their fair value, based on current funded debt spreads.

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

Fair value hierarchy

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

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

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

Qualitative disclosures of valuation techniques

Money market instruments

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

Debt securities

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

Corporate bonds

Corporate bonds are priced to reflect current market levels either through recent market transactions or to broker or dealer quotes. Where a market price for the particular security is not directly available, valuations are obtained based on yields reflected by other instruments in the specific or a similar entity's capital structure and adjusting for differences in seniority and maturity, benchmarking to a comparable security where market data is available (taking into consideration differences in credit, liquidity and maturity) or

through the application of cash flow modelling techniques utilising observable inputs, such as current interest rate curves and observable CDS spreads.

The majority of Corporate Bonds are categorised as Level 2.

Commercial Mortgage Backed Securities (CMBS), Residential Mortgage Backed Securities (RMBS) and ABS/CDO structures

Values of RMBS, CMBS and other ABS/CDO structures may be available through quoted prices, which are often based on the prices at which similarly structured and collateralised securities trade between dealers and with customers. Values of RMBS, CMBS and other ABS for which there are no significant observable inputs are valued using benchmarks to similar transactions or indices and other valuation models. For most structured debt securities, the determination of fair value requires subjective assessment depending on liquidity, ownership concentration, and the current economic and competitive environment. Valuation is determined based on management's own assumptions about how market participants would price the asset.

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

The majority of CMBS/RMBS/ABS/CDO structures are categorised as Level 3.

Equity securities

The majority of the CSS(E)L Group's positions in equity securities are traded on public stock exchanges for which quoted prices are readily and regularly available and are therefore categorised as Level 1 instruments. Level 2 equities include fund-linked products, convertible bonds or equity securities with restrictions and therefore are not traded in active markets.

Fund-linked products

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

Convertible bonds

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

Derivatives

Derivatives held for trading purposes or used in hedge accounting relationships include both OTC and exchange traded derivatives.

The fair values of exchange-traded derivatives measured using observable exchange prices are included in Level 1 of the fair value hierarchy. Some observable exchange prices may not be considered executable at the reporting date and may have been adjusted for liquidity concerns. For those instruments where liquidity adjustments have been made to the exchange price, such as long-dated option contracts, the instrument has been included in Level 2 of the fair value hierarchy.

The fair values of OTC derivatives are determined on the basis of either industry standard models or internally developed proprietary models. Both model types use various observable and unobservable inputs

in order to determine fair value. The inputs include those characteristics of the derivative that have a bearing on the economics of the instrument.

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

Where observable inputs are not available, attempts are made to infer values from observable prices through model calibration (spot and forward rates, benchmark interest rate curves and volatility inputs for commonly traded option products). For inputs that cannot be derived from other sources, estimates from historical data may be made.

OTC derivatives where the majority of the value is derived from market observable inputs are categorised as Level 2 instruments, while those where the majority of value is derived from unobservable inputs are categorised as Level 3 instruments.

Interest rate derivatives

OTC vanilla interest rate products, such as interest rate swaps, swaptions, and caps and floors are valued by discounting the anticipated future cash flows. The future cash flows and discounting rates are derived from market standard yield curves and industry standard volatility inputs. Where applicable, exchange-traded prices are also used to value exchange traded futures and options and can be used in yield curve construction.

For more complex products, inputs include, but are not limited to basis swap spreads, constant maturity convexity adjustments, constant maturity treasury spreads, inflation index correlations, inflation seasonality, single and quanto interest rate correlations, cross asset correlations, mean reversion, serial correlation and conditional prepayment rate assumptions.

Foreign exchange derivatives

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

Equity derivatives

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

Credit derivatives

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

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

Commodity derivatives

Commodity derivatives include forwards, vanilla and exotic options, swaps, swaptions, and structured transactions. Vanilla products are generally valued using industry standard models, while more complex products may use proprietary models. Commodity derivative model inputs include cross commodity correlation, foreign exchange commodity correlation, commodity forward rate curves, spot prices, commodity volatility and yield curves. Inputs can be validated from executed trades, broker and consensus data. In other cases, historic relationships may be used to estimate model inputs.

Other financial assets designated at fair value through profit or loss

Other financial assets designated at fair value through profit or loss includes cash and synthetic life finance instruments and other alternative capital investments.

Cash and synthetic life finance instruments

Cash instruments include Single Premium Insurance Annuity (SPIA), premium finance, and life settlement contracts at fair value, whereas synthetic instruments include longevity swaps, options and notes. These instruments are valued using proprietary models using several inputs however; central to the calculation of fair value for life finance instruments is the estimate of mortality rates. Individual mortality rates are typically obtained by multiplying a base mortality curve for the general insured population provided by a professional actuarial organisation together with an individual-specific multiplier. Individual specific multipliers are determined based on data from third-party life expectancy data providers, which examine insured individual's medical conditions, family history and other factors to arrive at a life expectancy estimate. In addition to mortality rates, discount rates and credit spreads are also inputs into the valuation of life finance instruments.

Due to the limited observability in the market of mortality rates the vast majority of life finance instruments are categorised as level 3 instruments.

Short-term borrowings and long-term debt

The CSS(E)L Group's short-term borrowings and long-term debt include structured notes (hybrid financial instruments that are both bifurcatable and non-bifurcatable) and vanilla debt. The fair value of structured notes is based on quoted prices, where available. When quoted prices are not available, fair value is determined by using a discounted cash flow model incorporating the CSS(E)L Group's credit spreads, the value of derivatives embedded in the debt and the residual term of the issuance based on call options. Derivatives structured into the issued debt are valued consistently with the firms' stand-alone derivatives as discussed above. The fair value of structured debt is heavily influenced by the combined call options and performance of the underlying derivative returns.

Vanilla debt is fair valued to the new issue market using risk-free yield curves for similar maturities and the CSS(E)L Group's own credit spread. Long-term debt instruments are categorised between Level 2 and /or Level 3.

Financial assets and liabilities by categories

Financial instruments are measured on an ongoing basis either at fair value or at amortised cost. The following table sets out the carrying amounts and fair values of the CSS(E)L Group's financial instruments.

31 December 2012		Carrying amount				Total fair value
CSS(E)L Group (USD million)	Total carrying value	Held for trading	Designated at fair value	Loans and receivables	Available for sale	
Financial Assets						
Cash and due from banks	13,204	-	-	13,204	-	13,204
Interest-bearing deposits with banks	4,112	-	-	4,112	-	4,112
Securities purchased under resale agreements and securities borrowing transactions	37,109	-	-	37,109	-	37,109
Trading financial assets at fair value through profit or loss	71,385	71,385	-	-	-	71,385
Financial assets designated at fair value through profit or loss	90,194	-	90,194	-	-	90,194
Financial assets available-for-sale	31	-	-	-	31	31
Other loans and receivables	1,483	-	-	1,483	-	1,584
Other assets	39,364	-	-	39,364	-	39,364
Total Financial assets	256,882	71,385	90,194	95,272	31	256,983

31 December 2012		Carrying Amount			Total fair value
CSS(E)L Group (USD million)	Total carrying value	Held for trading	Designated at fair value	Other amortised cost	
Financial Liabilities					
Deposits	4,427	-	-	4,427	4,427
Securities sold under repurchase agreements and securities lending transactions	33,019	-	-	33,019	33,019
Trading financial liabilities at fair value through profit or loss	39,617	39,617	-	-	39,617
Financial liabilities designated at fair value through profit or	82,630	-	82,630	-	82,630
Short term borrowings	34,095	-	-	34,095	34,191
Other liabilities	40,346	-	-	40,346	40,346
Long term debt	15,598	-	-	15,598	16,879
Total Financial liabilities	249,732	39,617	82,630	127,485	251,109

31 December 2011	Carrying amount					Total fair value
	CSS(E)L Group (USD million)	Total carrying amount	Held for trading	Designated at fair value	Loans and receivables	
Financial Assets						
Cash and due from banks	19,914	-	-	19,914	-	19,914
Securities purchased under resale agreements and securities borrowing transactions	36,202	-	-	36,202	-	36,202
Trading financial assets at fair value through profit or loss	73,536	73,536	-	-	-	73,536
Financial assets designated at fair value through profit or	103,423	-	103,423	-	-	103,423
Financial assets available-for-sale	35	-	-	-	35	35
Other loans and receivables	1,575	-	-	1,575	-	1,756
Other assets	40,660	-	-	40,660	-	40,660
Total Financial assets	275,345	73,536	103,423	98,351	35	275,526

31 December 2011	Carrying amount				Total fair value
	CSS(E)L Group (USD million)	Total carrying amount	Held for trading	Designated at fair value	
Financial Liabilities					
Deposits	4,305	-	-	4,305	4,305
Securities sold under repurchase agreements and securities lending transactions	34,460	-	-	34,460	34,460
Trading financial liabilities at fair value through profit or loss	47,257	47,257	-	-	47,257
Financial liabilities designated at fair value through profit or loss	87,422	-	87,422	-	87,422
Short term borrowings	36,416	-	-	36,416	36,858
Other liabilities	45,341	-	-	45,341	45,341
Long term debt	16,510	-	-	16,510	18,433
Total Financial liabilities	271,711	47,257	87,422	137,032	274,076

31 December 2012		Carrying amount				Total fair value
Company (USD million)	Total carrying amount	Held for trading	Designated at fair value	Loans and receivables	Available for sale	
Financial Assets						
Cash and due from banks	13,203	-	-	13,203	-	13,203
Interest-bearing deposits with banks	4,112	-	-	4,112	-	4,112
Securities purchased under resale agreements and securities borrowing	37,109	-	-	37,109	-	37,109
Trading financial assets at fair value through profit or loss	71,923	71,923	-	-	-	71,923
Financial assets designated at fair value through profit or loss	88,370	-	88,370	-	-	88,370
Financial assets available-for-sale	31	-	-	-	31	31
Other loans and receivables	1,483	-	-	1,483	-	1,584
Other assets	39,364	-	-	39,364	-	39,364
Total Financial assets	255,595	71,923	88,370	95,271	31	255,696

31 December 2012		Carrying amount			Total fair value
Company (USD million)	Total carrying amount	Held for trading	Designated at fair value	Other amortised	
Financial Liabilities					
Deposits	4,427	-	-	4,427	4,427
Securities sold under repurchase agreements and securities lending transactions	33,019	-	-	33,019	33,019
Trading financial liabilities at fair value through profit or loss	39,584	39,584	-	-	39,584
Financial liabilities designated at fair value through profit or loss	82,710	-	82,710	-	82,710
Short term borrowings	34,095	-	-	34,095	34,191
Other liabilities	40,325	-	-	40,325	40,325
Long term debt	15,462	-	-	15,462	16,879
Total Financial liabilities	249,622	39,584	82,710	127,328	251,135

31 December 2011		Carrying amount				Total fair value
Company (USD million)	Total carrying amount	Held for trading	Designated at fair value	Loans and receivables	Available for sale	
Financial Assets						
Cash and due from banks	19,812	-	-	19,812	-	19,812
Securities purchased under resale agreements and securities borrowing transactions	36,202	-	-	36,202	-	36,202
Trading financial assets at fair value through profit or loss	73,708	73,708	-	-	-	73,708
Financial assets designated at fair value through profit or loss	103,261	-	103,261	-	-	103,261
Financial assets available-for-sale	31	-	-	-	31	31
Other loans and receivables	1,575	-	-	1,575	-	1,756
Other assets	40,660	-	-	40,660	-	40,660
Total Financial assets	275,249	73,708	103,261	98,249	31	275,430

31 December 2011		Carrying amount			Total fair value
Company (USD million)	Total carrying value	Held for trading	Designated at fair value	Other amortised cost	
Financial Liabilities					
Deposits	4,305	-	-	4,305	4,305
Securities sold under repurchase agreements and securities lending transactions	34,460	-	-	34,460	34,460
Trading financial liabilities at fair value through profit or loss	47,150	47,150	-	-	47,150
Financial liabilities designated at fair value through profit or loss	87,028	-	87,028	-	87,028
Short term borrowings	36,416	-	-	36,416	36,858
Other liabilities	45,325	-	-	45,325	45,325
Long term debt	16,381	-	-	16,381	18,433
Total Financial liabilities	271,065	47,150	87,028	136,887	273,559

Fair value hierarchy

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

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

31 December 2012 CSS(E)L Group	Quoted Prices in active markets for the same instruments (Level 1)	Valuation techniques observable inputs (Level 2)	Valuation techniques unobservable inputs (Level 3)	Impact of netting	Total at fair value
Assets at fair value (USD million)					
Trading financial assets at fair value through profit or loss	48,791	20,962	1,723	(91) ¹	71,385
Securities purchased under resale agreements and securities borrowing transactions	-	89,078	-	(1,832) ²	87,246
Other financial assets designated at fair value through profit or loss	1	539	2,408	-	2,948
Financial assets designated at fair value through profit or loss	1	89,617	2,408	(1,832)	90,194
Total assets at fair value	48,792	110,579	4,131	(1,923)	161,579
Liabilities at fair value (USD million)					
Trading financial liabilities at fair value through profit or loss	20,242	18,772	694	(91) ¹	39,617
Securities sold under repurchase agreements and securities lending transactions	-	82,067	-	(1,832) ²	80,235
Long-term debt	-	551	39	-	590
Other financial liabilities designated at fair value through profit or loss	653	1,071	81	-	1,805
Financial liabilities designated at fair value through profit or loss	653	83,689	120	(1,832)	82,630
Other liabilities	-	2	274	-	276
Total liabilities at fair value	20,895	102,463	1,088	(1,923)	122,523

¹ Trading financial assets at fair value through profit or loss are reported on a gross basis by level. The impact of netting represents an adjustment related to exchange traded derivatives with eligible exchanges.

² Securities purchased under resale agreements and securities borrowing transactions are reported on a gross basis by level. The impact of netting represents an adjustment related to counterparty netting.

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

As at 31 December 2012 Company	Quoted Prices in active markets for the same instruments (Level1)	Valuation techniques observable inputs (Level 2)	Valuation techniques unobservable inputs (Level 3)	Impact of netting	Total at fair value
Assets at fair value (USD million)					
Trading financial assets at fair value through profit or loss	48,748	20,962	2,304	(91) ¹	71,923
Securities purchased under resale agreements and securities borrowing transactions	-	89,078	-	(1,832) ²	87,246
Other financial assets designated at fair value through profit and loss	1	539	584	-	1,124
Financial assets designated at fair value through profit or loss	1	89,617	584	(1,832)	88,370
Total assets at fair value	48,749	110,579	2,888	(1,923)	160,293
Liabilities at fair value (USD million)					
Trading financial liabilities at fair value through profit or loss	20,242	18,772	661	(91) ¹	39,584
Securities sold under repurchase agreements and securities lending transactions	-	82,068	-	(1,832) ²	80,236
Long-term debt	-	551	39	-	590
Other financial Liabilities designated at fair value through profit and loss	653	1,164	67	-	1,884
Financial liabilities designated at fair value through profit or loss	653	83,783	106	(1,832)	82,710
Other liabilities	-	2	256	-	258
Total liabilities at fair value	20,895	102,557	1,023	(1,923)	122,552

¹ Trading financial assets at fair value through profit or loss are reported on a gross basis by level. The impact of netting represents an adjustment related to exchange traded derivatives with eligible exchanges.

² Securities purchased under resale agreements and securities borrowing transactions are reported on a gross basis by level. The impact of netting represents an adjustment related to counterparty netting.

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

As at 31 December 2011 CSS(E)L Group	Quoted Prices in active markets for the same instruments (Level1)	Valuation techniques observable inputs (Level 2)	Valuation techniques unobservable inputs (Level 3)	Impact of netting	Total at fair value
Assets at fair value (USD million)					
Trading financial assets at fair value through profit or loss	45,469	26,447	1,620	-	73,536
Securities purchased under resale agreements and securities borrowing transactions	-	100,204	-	(397) ¹	99,807
Other financial assets designated at fair value through profit or loss	823		2,793	-	3,616
Financial assets designated at fair value through profit or loss	823	100,204	2,793	(397)	103,423
Total assets at fair value	46,292	126,651	4,413	(397)	176,959
Liabilities at fair value (USD million)					
Trading financial liabilities at fair value through profit or loss	24,522	22,153	582	-	47,257
Securities sold under repurchase agreements and securities lending transactions	-	83,990	-	(397) ¹	83,593
Long-term debt	-	289	18	-	307
Other financial Liabilities designated at fair value through profit or loss	2,952	142	428	-	3,522
Financial liabilities designated at fair value through profit or loss	2,952	84,421	446	(397)	87,422
Other liabilities	-	14	235	-	249
Total liabilities at fair value	27,474	106,588	1,263	(397)	134,928

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

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

31 December 2011 Company	Quoted Prices in active markets for the same instruments (Level 1)	Valuation techniques observable inputs (Level 2)	Valuation techniques unobservable inputs (Level 3)	Impact of netting	Total at fair value
Assets at fair value (USD million)					
Trading financial assets at fair value through profit or loss	45,338	26,448	1,922	-	73,708
Securities purchased under resale agreements and securities borrowing transactions	-	100,204	-	(397) ¹	99,807
Other financial assets designated at fair value through profit or loss	823	-	2,631	-	3,454
Financial assets designated at fair value through profit or loss	823	100,204	2,631	(397)	103,261
Total assets at fair value	46,161	126,652	4,553	(397)	176,969
Liabilities at fair value (USD million)					
Trading financial liabilities at fair value through profit or loss	24,522	22,151	477	-	47,150
Securities sold under repurchase agreements and securities lending transactions	-	83,990	-	(397) ¹	83,593
Long-term debt	-	289	18	-	307
Other financial liabilities designated at fair value through profit or loss	2,952	142	34	-	3,128
Financial liabilities designated at fair value through profit or loss	2,952	84,421	52	(397)	87,028
Other liabilities	-	14	220	-	234
Total liabilities at fair value	27,474	106,586	749	(397)	134,412

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

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

As at December 2012	Trading revenues										
	CSS(E)L Group Assets and Liabilities	Balance at beginning of period	Transfers in	Transfers out	Purchases	Sales	Settlement	Issuance	On transfers in/out ¹	On all others	Balance at end of period
Assets at fair value (USD million)											
Trading financial assets at fair value through profit or loss	1,620	799	(783)	641	(549)	(144)	166	(2)	(25)		1,723
Other financial assets designated at fair value through profit or loss	2,793	-	-	303	(703)	(176)	49	-	142		2,408
Financial assets designated at fair value through profit or loss	2,793	-	-	303	(703)	(176)	49	-	142		2,408
Total assets at fair value	4,413	799	(783)	944	(1,252)	(320)	215	(2)	117		4,131
Liabilities at fair value (USD million)											
Trading financial liabilities at fair value through profit or loss	582	286	(150)	12	(35)	(189)	125	10	53		694
Long-term debt	18	-	-	18	-	(17)	-	-	20		39
Other financial liabilities designated at fair value through profit or loss	428	-	-	-	(383)	(11)	51	-	(4)		81
Financial liabilities designated at fair value through profit or loss	446	-	-	18	(383)	(28)	51	-	16		120
Other liabilities	235	-	-	-	-	(7)	-	-	46		274
Total liabilities at fair value	1,263	286	(150)	30	(418)	(224)	176	10	115		1,088
Net assets/liabilities at fair value	3,150	513	(633)	914	(834)	(96)	39	(12)	2		3,043

¹ For all transfers to level 3 or out of level 3, the CSS(E)L Group determines and discloses as level 3 events only gains or losses through the last day of the reporting period.

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

As at December 2012

Company Assets and Liabilities	Balance at beginning of period	Transfers in	Transfers out	Purchases	Sales	Settlement	Trading revenues			Balance at end of period
							Issuance	On transfers in/out ¹	On all others	
Assets at fair value (USD million)										
Trading financial assets at fair value through profit or loss	1,922	799	(783)	641	(566)	159	166	(2)	(32)	2,304
Other financial assets designated at fair value through profit or loss	2,631	-	-	180	(506)	(1,777)	49	-	7	584
Financial assets designated at fair value through profit or loss	2,631	-	-	180	(506)	(1,777)	49	-	7	584
Total assets at fair value	4,553	799	(783)	821	(1,072)	(1,618)	215	(2)	(25)	2,888
Liabilities at fair value (USD million)										
Trading financial liabilities at fair value through profit or loss	477	286	(150)	12	(35)	(113)	119	10	55	661
Long-term debt	18	-	-	18	-	(17)	-	-	20	39
Other financial liabilities designated at fair value through profit or loss	34	-	-	-	(10)	(1)	50	-	(6)	67
Financial liabilities designated at fair value through profit or loss	52	-	-	18	(10)	(18)	50	-	14	106
Other liabilities	220	-	-	-	-	(7)	-	-	43	256
Total liabilities at fair value	749	286	(150)	30	(45)	(138)	169	10	112	1,023
Net assets/liabilities at fair value	3,804	513	(633)	791	(1,027)	(1,480)	46	(12)	(137)	1,865

¹ For all transfers to level 3 or out of level 3, the CSS(E)L Group determines and discloses as level 3 events only gains or losses through the last day of the reporting period.

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

As at December 2011										
CSS(E)L Group Assets	Balance at beginning of period	Transfers in	Transfers out	Purchases	Sales	Settlement	Trading revenues		Balance at end of period	
							Issuance	On transfers in/out ¹		On all others
Assets at fair value (USD million)										
Trading financial assets at fair value through profit or loss	1,205	853	(536)	503	(721)	(101)	155	35	227	1,620
Other financial assets designated at fair value through profit or loss	2,518	-	-	88	(290)	(1)	3	-	475	2,793
Financial assets designated at fair value through profit or loss	2,518	-	-	88	(290)	(1)	3	-	475	2,793
Total assets at fair value	3,723	853	(536)	591	(1,011)	(102)	158	35	702	4,413
Liabilities at fair value (USD million)										
Trading financial liabilities at fair value through profit or loss	521	25	(30)	(67)	46	(95)	360	2	(180)	582
Securities sold under repurchase agreements and securities lending transactions	773	-	(749)	-	-	-	-	(24)	-	-
Long-term debt	20	-	-	-	-	(6)	-	-	4	18
Other financial liabilities designated at fair value through profit or loss	367	-	-	(45)	(33)	-	-	-	139	428
Financial liabilities designated at fair value through profit or loss	1,160	-	(749)	(45)	(33)	(6)	-	(24)	143	446
Other liabilities	254	-	-	-	-	(19)	-	-	-	235
Total liabilities at fair value	1,935	25	(779)	(112)	13	(120)	360	(22)	(37)	1,263
Net assets/liabilities at fair value	1,788	828	243	703	(1,024)	18	(202)	57	739	3,150

¹ For all transfers to level 3 or out of level 3, the CSS(E)L Group determines and discloses as level 3 events only gains or losses through the last day of the reporting period.

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

As at December 2011

Company Assets	Balance at beginning of period	Transfers in	Transfers out	Purchases	Sales	Settlement	Issuance	Trading revenues		Balance at end of period
								On transfers in/out ¹	On all others	
Assets at fair value (USD million)										
Trading financial assets at fair value through profit or loss	3,389	853	(536)	502	(716)	(2,350)	155	35	590	1,922
Other financial assets designated at fair value through profit or loss	367	-	-	2,097	(36)	(1)	3	-	201	2,631
Financial assets designated at fair value through profit or loss	367	-	-	2,097	(36)	(1)	3	-	201	2,631
Total assets at fair value	3,756	853	(536)	2,599	(752)	(2,351)	158	35	791	4,553
Liabilities at fair value (USD million)										
Trading financial liabilities at fair value through profit or loss	410	25	(30)	(66)	46	(101)	359	2	(168)	477
Securities sold under repurchase agreements and securities lending transactions	773	-	(749)	-	-	-	-	(24)	-	-
Long-term debt	20	-	-	-	-	(5)	-	-	3	18
Other financial liabilities designated at fair value through profit or loss	94	-	-	-	-	(44)	-	-	(16)	34
Financial liabilities designated at fair value through profit or loss	887	-	(749)	-	-	(49)	-	(24)	(13)	52
Other liabilities	239	-	-	-	-	(18)	-	-	(1)	220
Total liabilities at fair value	1,536	25	(779)	(66)	46	(168)	359	(22)	(182)	749
Net assets/liabilities at fair value	2,220	828	243	2,665	(798)	(2,183)	(201)	57	973	3,804

¹ For all transfers to level 3 or out of level 3, the CSS(E)L Group determines and discloses as level 3 events only gains or losses through the last day of the reporting period.

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

Trading revenues (USD million)	As at 31 December 2012		As at 31 December 2011	
	CSS(E)L Group	Company	CSS(E)L Group	Company
Gains and losses on assets and liabilities measured at fair value on a recurring basis using significant unobservable inputs (Level 3)				
Net realised/unrealised (losses)/gains included in net revenues	(10)	(149)	796	1,030
Whereof:				
Changes in unrealised (losses)/gains relating to assets and liabilities still held as of the reporting date	(168)	(75)	142	271

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

Transfers between level 1 and level 2

Transfers out of level 1 to level 2 are primarily driven by instruments that have become less attractive to the retailers and whose market is now inactive or low trading volume. Transfers to level 1 out of level 2 are primarily driven by markets becoming more active or higher trading volume. The following table shows the transfers from level 1 to level 2 and from level 2 to level 1 of the fair value hierarchy.

CSS(E)L Group and Company (USD million)	2012		2011	
	Transfers out of level 1 to level 2	Transfers to level 1 out of level 2	Transfers out of level 1 to level 2	Transfers to level 1 out of level 2
Assets				
Trading financial assets at fair value through profit or loss	368	417	308	228
Total transfers in assets at fair value	368	417	308	228
Liabilities				
Trading financial liabilities at fair value through profit or loss	331	500	96	41
Total transfers in liabilities at fair value	331	500	96	41

Sensitivity of fair values to reasonably possible alternative assumptions

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

CSS(E)L Group	As at 31 December 2012		As at 31 December 2011	
	Favourable changes	Unfavourable changes	Favourable changes	Unfavourable changes
Impact on net income/(loss) (USD million)				
Life insurance products	188	(188)	113	(207)
Asset backed securities	14	(14)	16	(16)
Debt and equity securities	15	(13)	7	(3)
Other Liabilities	14	(14)	12	(12)
Total	231	(229)	148	(238)

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 include life expectancy related contracts where the parameter subjected to sensitivity analysis is mortality rates. The sensitivity amount is based upon up and down movements ranging from 2 months to 9 months of the expected life expectancy of individuals in the portfolio.

Asset backed securities include RMBS and CDO positions. RMBS positions were subjected to sensitivities on price which were generally subjected to an 8% movement up and down of the price of the security.

Debt and equity securities include corporate market bonds. The parameter subjected to sensitivity for corporate debt is price. Corporate debt positions are generally subjected to movements up and down of 3% to 4% of the price of the security.

Other liabilities include the CSS(E)L Group's PAF obligations. The sensitivity of the PAF obligations was based upon an estimate of the related PAF Asset Pool.

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 analysing the range of bids and offers on observable market information as a proxy for the unobservable portion of the market.

Recognition of trade date profit/loss

If there are significant unobservable inputs used in the valuation technique, the financial instrument is recognised at the transaction price and any profit implied from the valuation technique at trade date is deferred over the life of the contract or until the fair value is expected to become observable. Any remaining trade date deferred profit or loss is recognised in the Consolidated Statement of Income when inputs to the valuation model becomes observable or the CSS(E)L Group enters into offsetting transactions that substantially eliminate the instrument's risk.

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

CSS(E)L Group and Company	2012	2011
Deferred trade date profit and loss (USD million)		
Balance at 1 January 2012	256	296
(Decrease)/Increase due to new trades	(5)	18
Reduction due to passage of time	(32)	(47)
Reduction due to redemption, sales, transfers or improved observability	(32)	(11)
Balance at 31 December 2012	187	256

36. Assets Pledged or Assigned

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

Assets pledged or assigned (USD million)	2012	2011
Trading financial assets at fair value through profit or loss	39,211	36,666
Collateral received (USD million)		
Fair value of collateral received with the right to resell or repledge	278,281	285,725
Of which sold or repledged	241,047	262,307

Assets pledged or assigned represents the balance sheet position of trading assets at fair value through profit or loss which have been pledged as collateral under securities sold under repurchase agreements, securities lending transactions and derivative instruments. Refer to Note 13 for the amount of securities transferred which are encumbered.

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

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

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

37. Derecognition of Financial Assets

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

Transferred Financial Assets that are derecognised with continuing involvement

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

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

Information on transferred assets by type of continuing involvement

	Carrying amount of	Fair value of continuing		Maximum	Gain/loss	Income/expense	Income/expense
	continuing involvement	involvement	involvement	exposure to loss	recognised at the date of transfer	from continuing involvement year to date	from continuing involvement life to date
	Trading assets at fair value through profit or loss	Assets	Liabilities				
Type of continuing involvement							
Derivatives							
Swaps	56	56	-	56	-	(8)	7

The CSS(E)L Group's continuing involvement in derecognised transferred financial assets is in the form of derivative transactions. To reduce its credit risk to derivatives, the CSS(E)L Group enters into legally enforceable netting agreements with its derivative counterparties. Collateral on these derivative contracts is usually posted on a net counterparty basis.

Instruments that are considered to be continuing involvement are included in Note 13 - Trading financial assets and liabilities at fair value through profit or loss.

Transferred Financial Assets that are not derecognised in their entirety

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

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

Carrying amount of transferred assets not derecognised and associated liabilities

CSS(E)L Group (USD million)		2012		
Financial assets not derecognised due to the following transactions:	Repurchase and stock lending and borrowing agreements	Total return swaps	Other	
Carrying amount of assets	20,835	657	551	
Carrying amount of associated liabilities	20,835	653	-	

Company (USD million)		2012		
Financial assets not derecognised due to the following transactions:	Repurchase and stock lending and borrowing agreements	Total return swaps	Other	
Carrying amount of assets	20,835	657	93	
Carrying amount of associated liabilities	20,835	653	93	

CSS(E)L Group and Company (USD million)		2011		
Financial assets not derecognised due to the following transactions:	Repurchase and stock lending and borrowing agreements	Total return swaps	Other	
Carrying amount of assets	16,265	2,952	428	
Carrying amount of associated liabilities	16,265	2,952	428	

The CSS(E)L Group also participates in securities lending agreements where the counterparty provides security as collateral. The carrying amount of the assets not derecognised in such transactions is equal to USD 29,330 million.

Where the CSS(E)L Group sells the contractual rights to the cash flows of the securities included above, it does not have the ability to use the transferred assets during the term of the arrangement.

Assets not derecognised are included in Note – 13 Trading Financial Assets and Liabilities at Fair Value Through Profit or Loss and Note 14 – Financial Assets and Liabilities Designated at Fair Value Through Profit or Loss. Liabilities in relation to assets not derecognised are included in Note 14 – Financial assets and Liabilities Designated at Fair Value Through Profit or Loss and in Note 12 – Securities Borrowed, Lent and Subject to Resale or Repurchase Agreements.

38. Financial Instruments Risk Position

Risks Detail

i) Market risk

Overview

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

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

Value-at-Risk

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

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

The Company uses a historical simulation model for the majority of risk types and businesses within its trading portfolios. Where insufficient data is available for such an approach, an 'extreme-move' methodology is used. The model is based on the profit or loss distribution resulting from historical changes in market rates, prices and volatility applied to evaluate the portfolio. This methodology also avoids any explicit assumptions on correlation between risk factors. The CSS(E)L Group uses a three-year historical dataset to compute VaR. To ensure that VaR responds appropriately in times of market stress, the

CSS(E)L Group uses a scaling technique that automatically increases VaR where the short-term market volatility is higher than the long term volatility in the three year dataset. This results in a more responsive VaR model, as the impact of changes in overall market volatility is reflected almost immediately in the VaR model.

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

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

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

Scenario analysis

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

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

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

Trading portfolios

Risk measurement and management

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 the Company's market risk exposure, not for financial statement purposes.

Development of trading portfolio risks

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

Ten-day, 99% VaR – trading portfolios

in / end of period	Interest rate and credit spread	Foreign exchange	Commodity	Equity	Diversification benefit ¹⁾	Total
2012						
USD million						
Average	82	7	1	31	(31)	90
Minimum	33	3	-	19	-	44
Maximum	203	14	5	100	-	211
End of period	52	8	1	38	(33)	66
2011						
USD million						
Average	198	11	-	54	(51)	212
Minimum	113	3	-	24	- ²⁾	100
Maximum	332	43	5	139	- ²⁾	410
End of period	114	6	-	24	(15)	129

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⁾ 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 CSS(E)L Group's ten-day, 99% regulatory VaR as of 31 December 2012 decreased by 49% to USD 66 million compared to 31 December 2011.

Banking portfolios

Risk measurement and management

The market risks associated with the non-trading portfolios are measured, monitored and limited using several tools, including Economic Capital, scenario analysis, sensitivity analysis and VaR. For the purpose of this disclosure, the aggregated market risks associated with the CSS(E)L 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.

Development of non-trading portfolio risks

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

The CSS(E)L Group has approval to manage its own trading profit and loss related foreign exchange risk through a formal trading mandate and has established defined risk limits but the majority of the CSS(E)L Group's profit or loss is managed centrally through CS group Treasury.

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 move in yield curves on the fair value of interest rate-sensitive non-trading book positions would have amounted to USD 1 million as at 31 December 2012 compared to USD 2 million as at 31 December 2011. Non-trading interest rate risk is assessed using other measures including the potential value change resulting from a significant change in yield curves.

As of 31 December 2012 the fair value impacts of a 200-basis-point move in yield curves (flooring at zero where appropriate) were:

+200bps decrease of USD 48 million (2011 increase of USD 314 million)

-200bps decrease of USD 197 million (2011 decrease of USD 158 million)

The fair value impact of a statistical one-year adverse interest rate move (to 99% confidence level) was a decrease of USD 48 million as at 31 December 2012. Both measures are significantly below the 20% threshold used by regulators to identify firms that potentially run excessive levels of non-trading interest rate risk.

The CSS(E)L Group and Company do not have material equity or commodity risk in its non-trading portfolio.

ii) Liquidity Risk

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

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

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

CS group wide management of liquidity risk

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

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

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

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

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

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

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

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

The NSFR, which is expected to be introduced on January 1, 2018 following an observation period which began in 2012, establishes criteria for a minimum amount of stable funding based on the liquidity of a

bank's assets and activities over a one-year horizon. The NSFR is intended to ensure banks maintain a structurally sound long-term funding profile beyond one year and is a complementary measure to the LCR. The standard is defined as the ratio of available stable funding over the amount of required stable funding and should always be at least 100%.

Legal entity management of liquidity risk

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

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

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

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

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

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

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

Incremental to the Company's unsecured funding sources from CS, the Company has the ability to access secured funding markets via repurchase and stock lending agreements. These funding streams provide diversification to the funding profile of the entity.

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

CSS(E)L Group 2012	Current			Total	Noncurrent		Total	Total
	On Demand	Due within 3 months	Between 3 and 12 months		Between 1 and 5 years	Due after 5 years		
Contractual maturity of Financial Liabilities (USD million)								
Deposits	462	-	3,965	4,427	-	-	-	4,427
Securities sold under repurchase agreements and securities lending transactions	9,773	803	21,783	32,359	660	-	660	33,019
Trading financial liabilities at fair value through profit or loss	39,617	-	-	39,617	-	-	-	39,617
Financial liabilities designated at fair value through profit or loss	19,636	56,998	2,912	79,546	2,640	444	3,084	82,630
Short term borrowings	-	56	34,039	34,095	-	-	-	34,095
Other liabilities	40,346	-	-	40,346	-	-	-	40,346
Long term debt	-	859	3,803	4,662	7,926	5,822	13,748	18,410
Perpetual debt	-	-	-	-	-	1,823	1,823	1,823
Total financial liabilities	109,834	58,716	66,502	235,052	11,226	8,089	19,315	254,367

CSS(E)L Group 2011	Current			Total	Noncurrent		Total	Total
	On Demand	Due within 3 months	Between 3 and 12 months		Between 1 and 5 years	Due after 5 years		
Contractual maturity of Financial Liabilities (USD million)								
Deposits	4,305	-	-	4,305	-	-	-	4,305
Securities sold under repurchase agreements and securities lending transactions	20,235	2,664	10,615	33,514	946	-	946	34,460
Trading financial liabilities at fair value through profit or loss	47,257	-	-	47,257	-	-	-	47,257
Financial liabilities designated at fair value through profit or loss	21,332	59,630	2,078	83,040	3,218	1,164	4,382	87,422
Short term borrowings	-	34	36,382	36,416	-	-	-	36,416
Other liabilities	45,341	-	-	45,341	-	-	-	45,341
Long term debt	-	120	362	482	11,059	8,932	19,991	20,473
Perpetual debt	-	-	-	-	-	2,691	2,691	2,691
Total financial liabilities	138,470	62,448	49,437	250,355	15,223	12,787	28,010	278,365

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

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

iii) Wrong-way risk

Wrong-way exposures

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

Credit approval and reviews

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

Exposure adjusted risk calculation

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

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

Wrong-way risk monitoring

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

- Country exposure reporting – Exposure is reported against country limits established for emerging market countries. As part of the exposure reporting process, exposures that exhibit wrong-way characteristics are given a higher risk-weighting versus non-correlated transactions. This weighting results in a greater amount of country limit usage for wrong-way transactions.
- Counterparty exposure reporting – Transactions that contain wrong-way risk (e.g. repurchase agreements, equity finance) are risk weighted as part of the daily exposure calculation process. Correlated transactions utilise more of the credit limit.

- Correlated repurchase and foreign exchange reports – Monthly reports produced by CRM capture correlated finance and foreign exchange positions for information and review by credit officers.
- Scenario risk reporting – In order to capture wrong-way risk at the industry level, a set of defined scenarios are run on the credit portfolio each month. The scenarios are determined by CRM and involve stressing the underlying risk drivers to determine where portfolios are sensitive to these stressed parameters.
- Scenario risk reporting also covers client groups, particularly hedge funds, which are exposed to particular risk sensitivities and also may have collateral concentrations due to the direction and strategy of the fund.

iv) Currency Risk

The 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 has approval to manage its own trading profit and loss related foreign exchange risk through a formal trading mandate and has defined risk limits using the Value at Risk (VaR) methodology albeit that the majority of its profit and loss exposure is managed centrally by CS group Treasury. Its currency exposure within the non-trading portfolios is managed through the CS group levelling process as set out in the Corporate foreign exchange Policy. Both these methodologies are discussed in more detail in section i) of this note.

v) 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 counterparty risk

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

Credit risk management approach

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

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

- individual counterparty rating systems;
- transaction rating systems;
- a counterparty credit limit system;
- country concentration limits;
- risk-based pricing methodologies;

- active credit portfolio management; and
- a credit risk provisioning methodology.

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

Counterparty and transaction rating

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

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

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

Credit Risk Overview

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

Collateral held as security

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

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

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

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

Primary types of collateral

Collateral securing foreign exchange transactions and OTC trading activities includes:

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

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

Maximum exposure to credit risk before collateral held or other credit enhancements

The following table also presents the maximum exposure to credit risk of financial instruments included in the Consolidated Statement of Financial Position, before taking account of the fair value of any collateral held or other credit enhancements unless such credit enhancements meet offsetting requirements as set out in IAS 32. For financial assets recognised on the Consolidated Statement of Financial Position, the exposure to credit risk equals their carrying amount as at 31 December 2012.

Maximum exposure to credit risk:

2012	Group			Company		
	Gross	Collateral	Net	Gross	Collateral	Net
Maximum exposure to credit risk (USD million)						
Cash and due from banks	13,204	-	13,204	13,203	-	13,203
Interest-bearing deposits with banks	4,112	-	4,112	4,112	-	4,112
Securities purchased under resale agreements and securities borrowing transactions	37,109	37,080	29	37,109	37,080	29
Trading financial assets at fair value through profit or loss						
■ Debt securities	28,354	-	28,354	28,354	-	28,354
■ Derivative trading positions	14,926	14,676	250	15,507	14,676	831
Financial assets designated at fair value through profit or loss						
■ Securities purchased under resale agreements and securities borrowing transactions	87,246	86,521	725	87,246	86,521	725
■ Other	2,948	-	2,948	1,124	-	1,124
Financial assets available-for-sale	31	-	31	31	-	31
Other loans and receivables	1,483	-	1,483	1,483	-	1,483
Other assets	39,364	-	39,364	39,364	-	39,364
Maximum exposure to credit risk – total assets	228,777	138,277	90,500	227,533	138,277	89,256
Off-balance sheet items						
■ loan commitments and other credit related commitments	43,182	-	43,182	43,182	-	43,182
Maximum exposure to credit risk – total off-balance sheet	43,182	-	43,182	43,182	-	43,182
Maximum exposure to credit risk	271,959	138,277	133,682	270,715	138,277	132,438

Maximum exposure to credit risk:

2011	Group			Company		
	Gross	Collateral	Net	Gross	Collateral	Net
Maximum exposure to credit risk (USD million)						
Cash and due from banks	19,914	-	19,914	19,812	-	19,812
Securities purchased under resale agreements and Securities borrowing transactions	36,202	35,688	514	36,202	35,688	514
Trading financial assets at fair value through profit or loss						
■ Debt securities	32,612	-	32,612	32,612	-	32,612
■ Derivative trading positions	17,168	15,431	1,737	17,454	15,431	2,023
Financial assets designated at fair value through profit or loss						
■ Securities purchased under resale agreements and securities borrowing transactions	99,807	93,657	6,150	99,807	93,657	6,150
■ Other	3,616	-	3,616	3,454	-	3,454
Financial assets available-for-sale	35	-	35	31	-	31
Other loans and receivables	1,575	-	1,575	1,575	-	1,575
Other assets	40,660	-	40,660	40,660	-	40,660
Maximum exposure to credit risk – total assets	251,589	144,776	106,813	251,607	144,776	106,831
Off-balance sheet items						
■ loan commitments and other credit related commitments	27,826	-	27,826	27,826	-	27,826
Maximum exposure to credit risk – total off-balance sheet	27,826	-	27,826	27,826	-	27,826
Maximum exposure to credit risk	279,415	144,776	134,639	279,433	144,776	134,657

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

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

Reverse repurchase agreements and securities borrowings are typically fully collateralised instruments and in the event of default, the agreement provides the CSS(E)L Group the right to liquidate the collateral held. Reverse repurchase agreements are included either within Securities borrowed, lent and subject to repurchase or financial assets designated at fair value through profit or loss, based on the accounting methodology. These instruments are collateralised principally by government securities, money market instruments, corporate bonds and cash. The CSS(E)L Group monitors the fair value of securities borrowed and loaned on a daily basis with additional collateral obtained as necessary. The fair value of the collateral has been included in the table above. For further information on the collateral and credit enhancements held against reverse repurchase agreements and securities borrowing, refer to Note 12 - Securities borrowed, lent and subject to repurchase agreements.

For further information on collateral held as security that the CSS(E)L Group is permitted to sell or repledge, refer to Note 36 - Assets Pledged or Assigned.

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

Risk Mitigation

The CSS(E)L 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 CSS(E)L 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 in which case the value of collateral reflected as a risk mitigant is net of an appropriate haircut.

Counterparty Exposure before Collateral by Rating

CSSE(E)L Group	2012		2011	
	USD million	%	USD million	%
AAA	179	2	2,678	19
AA+ to AA-	3,932	40	4,393	32
A+ to A-	3,993	41	3,744	27
BBB+ to BBB-	638	6	1,919	14
BB+ to BB-	714	7	765	6
B+ and below	358	4	290	2
	9,814	100	13,789	100

Unsecured Exposure by Counterparty Rating

CSSE(E)L Group	2012		2011	
	USD million	%	USD million	%
AAA	179	2	2,701	24
AA+ to AA-	3,875	44	4,367	39
A+ to A-	4,030	46	3,321	30
BBB+ to BBB-	384	5	449	4
BB+ to BB-	107	1	211	2
B+ and below	157	2	138	1
	8,732	100	11,187	100

The above tables include all loans, commitments, derivatives, securities purchased and sold under resale and repurchase agreements, and short term cash trades on a net counterparty exposure basis for the Company as most of the trading portfolio mainly resides in the Company. The first table represents mark to market exposures before offsetting any eligible collateral held; the second table represents mark to market exposures after offsetting collateral.

vi) Country Risk

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

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

vii) Settlement Risk

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

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

viii) Legal Risk

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

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

ix) Operational Risk

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

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

Operational Risk Management

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

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

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

tolerance levels. Tolerance levels are monitored and reported to the Company's Risk management committee which monitors management adherence and oversee remediation and resolution of breaches.

x) Reputational Risk

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

39. Capital Adequacy

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

Capital Resources

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

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

During 2012 the Company received a Tier 1 capital injection of USD 3.3 billion to support the business.

The Company made changes to its capital base during the year as follows:

CSS(E)L Group and Company	2012	2011
Regulatory capital less deductions (USD million)		
Total regulatory capital less deductions at 1 January	7,428	6,856
Capital injections during the year		
Tier 1	3,300	750
Tier 2	-	-
Capital restructuring during the year		
Tier 1 Capital Instruments (including Share Premium)	944	-
Tier 2 Subordinated Loans	(900)	-
Total Capital Injections	3,344	750
Other movements		
Statement of Income and other movements	(667)	(726)
Net movement in regulatory deductions and prudential filters	681	548
Total regulatory capital less deductions at 31 December	10,786	7,428

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 Company calculated using methodologies set out by the FSA.

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

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

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

Company	2012	2011
USD million		
Total shareholders' equity	8,353	4,774
Reconciliation to tier 1 capital		
Regulatory Deductions (Goodwill)	(7)	(7)
Prudential Filters	(765)	(750)
Tier 1 capital less deductions	7,581	4,017
Tier 2 capital:		
Upper Tier 2 – Perpetual Subordinated Debt	1,500	2,400
Upper Tier 2 – Available for Sale Equities	22	22
Lower Tier 2 – Term Subordinated Debt	1,983	1,983
Excess Tier 2 Capital	-	(388)
Tier 2 capital	3,505	4,017
Tier 1 plus Tier 2 capital	11,086	8,034
Deductions	(299)	-
Tier 1 plus Tier 2 capital, less deductions	10,787	8,034
Excess Tier 2 capital	-	388
Deductions from total capital:		
Illiquid Assets	-	(992)
Free Deliveries	(1)	(2)
Total regulatory capital less deductions	10,786	7,428

40. FSA Pillar 3 disclosures

Under a waiver agreed with the FSA, certain of the Pillar 3 disclosures required by the UK implementation of Basel II need not be made by 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). Those Pillar 3 disclosures required under FSA rules that are not covered by the CS group disclosures can be found separately at www.credit-suisse.com.

41. Subsequent Events

For additional Pension Fund security the Company has pledged additional securities of GBP 140 million on 27 March 2013. This would be in addition to securities of GBP 106 million pledged as at 31 December 2012.

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

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

