Credit Suisse

# Credit Suisse International

## Annual Report 2010

**COMPANY REGISTRATION NUMBER: 2500199**

# CREDIT SUISSE INTERNATIONAL

## BOARD OF DIRECTORS

Fawzi Kyriakos-Saad (Chairman and CEO)

Christopher Horne

Costas P Michaelides

Daniel McHugh

Eraj Shirvani

Luigi de Vecchi

Stephen B Dainton

Rudolf Bless (Non Executive)

Tobias Guldimann (Non Executive)

## COMPANY SECRETARY

Paul E Hare

# CREDIT SUISSE INTERNATIONAL
## DIRECTORS' REPORT FOR THE YEAR ENDED 31 DECEMBER 2010

The Directors present their Report and the Financial Statements for the year ended 31 December 2010.

**International Financial Reporting Standards**

Credit Suisse International's 2010 Financial Statements have been prepared in accordance with International Financial Reporting Standards ('IFRS') as adopted for use in the European Union ('EU').

The Financial Statements were authorised for issue by the Directors on 31 March 2011.

**Business Review**

***Profile***

Credit Suisse Group AG ('CSG'), a company domiciled in Switzerland, is the ultimate parent of a worldwide group of companies (collectively referred to as the 'CS group') specialising in Investment Banking, Private Banking and Asset Management. Credit Suisse International ('CSi' or the 'Bank') is an unlimited liability company and an indirect wholly owned subsidiary of CSG. CSi is authorised under the Financial Services and Markets Act 2000 by the Financial Services Authority ('FSA').

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

CSi is a bank domiciled in the United Kingdom. It is a global market leader in over-the-counter ('OTC') derivative products from the standpoints of counterparty service, innovation, product range and geographic scope of operations. CSi offers a range of interest rate, currency, equity, commodity and credit-related OTC derivatives and certain securitised products. CSi's business is primarily client-driven, focusing on transactions that address the broad financing, risk management and investment concerns of its worldwide client base. CSi enters into derivative contracts in the normal course of business for market-making, positioning and arbitrage purposes, as well as for CS group's risk management needs, including mitigation of interest rate, foreign currency and credit risk. The Financial Statements for the year ended 31 December 2010 comprise CSi and its subsidiaries (together referred to as the 'Group').

***Principal product areas***

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

- The Fixed Income Division ('FID') provides a full range of derivative products including forward rate agreements, interest rate and currency swaps, interest rate options, bond options, commodities and credit derivatives for the financing, risk management and investment needs of its customers. FID also engages in underwriting, securitising, trading and distributing a broad range of financial instruments in developed and emerging markets including US Treasury and government agency securities, US and foreign investment-grade and high yield corporate bonds, money market instruments, foreign exchange and real estate related assets.

- The Equity Division engages in a broad range of equity activities for investors including sales, trading, brokerage and market making in international equity and equity related securities, options and futures and OTC derivatives.

- The Investment Banking Division ('IBD') includes financial advisory services regarding mergers and acquisitions and other matters, origination and distribution of equity and fixed income securities, leveraged finance and private equity investments and, in conjunction with FID and Equities, the provision of capital raising services.

***Economic environment***

Global economic growth continued in 2010, but with substantial regional disparities. European sovereign debt concerns were a significant issue during the year and weighed on financial markets. Expansionary monetary policies were maintained in most major countries. The majority of equity markets posted positive returns over 2010 and bond yields declined. Volatility in currency markets was high, with both the Swiss franc and Yen benefiting from their safe haven status.

The global recovery in 2010, though at a moderate pace, was driven by global manufacturing gains in the first half of the year, renewed credit and equity market activity and increased US consumer spending. The improvement in economic activity varied among countries and regions, and the sustainability of the recovery remained uncertain as high unemployment rates continued to weigh on economies around the world. While US consumer confidence was little changed over 2010, business confidence in manufacturing and services improved, particularly in the fourth quarter of 2010. Emerging markets, particularly in Asia, showed strong growth, especially in the first half of the year. The eurozone, notably Germany, also reported solid growth and the expansion in the US continued. Central banks around the world, including the US Federal Reserve (Fed), Bank of England and European Central Bank (ECB), maintained historically low interest rates. However, a number of central banks, particularly in the emerging markets, began to tighten their monetary and fiscal policies. The Chinese central bank raised reserve requirement ratios and its policy rate. Policy rates were also raised in other countries including Australia, Brazil, Canada, India and Sweden. Inflationary pressures remained subdued in most developed countries. While food and energy-related effects kept headline inflation rates at elevated levels, core inflation rates reached multi-year lows in the eurozone and the US.

Sovereign debt concerns in Europe (mainly in Greece, Ireland, Iceland, Portugal and Spain) dominated financial markets in 2010. European governments constructed an aid package in order to support troubled Eurozone governments. Further support came from the ECB and the International Monetary Fund, with the resulting crisis facility contributing to stabilising the markets.

Based on strong earnings results and a low interest rate environment, equity markets, especially in the US, performed strongly. The US equity market returned 13%, outperforming emerging markets in Asia and Latin America. European stock markets, impacted by the sovereign debt problems in some European countries, reported an average return of 4%, but with large divergences between markets. The German stock market, for example, outperformed the French stock market by more than 15%.

Government bond yields across most major markets declined during the first three quarters. Only in the fourth quarter of 2010 did bond yields begin to increase after the Fed's announcement of its intention to purchase US$ 600 billion of treasuries, extending its quantitative easing program. Credit spreads widened over a one-year period and the European credit market suffered from the sovereign debt concerns in some European countries.

In currency markets, the US dollar appreciated against the euro in the first half of 2010 due to sovereign debt concerns in the eurozone and heightened risk aversion. The easing of sovereign debt concerns and continued low US interest rates supported the euro in the second half of 2010. The British pound suffered against the US dollar due to weak growth in the UK. Several emerging market governments and central banks, including Brazil, Indonesia, Thailand and Turkey, also experimented with intervention or more unconventional capital control mechanisms to dampen currency appreciation following strong inflows.

***Sector environment***

2010 was a volatile year for the banking sector. European bank stocks fell by over 36% from their highs at the beginning of the year until June, and ended the year 18% lower. Banks in the US were much stronger and even outperformed the world index.

Regulators and governments continued regulatory reform, including measures on capital and liquidity requirements, compensation and systemic risk mitigation. Regulators addressed the issue of "too big to fail", qualifying capital instruments, bank levies and bonus and transaction taxes. EU governments discussed the regulation of alternative investment managers. In the US, tax legislation was enacted to broaden reporting by foreign financial institutions regarding all accounts held by US persons or by foreign entities with substantial US ownership.

The funding situation for European banks was difficult in the first half of 2010, and only improved after the Committee of European Banking Supervisors published the results of stress tests in third quarter of 2010. But many smaller European banks still experienced ongoing difficulties and significantly higher prices in fundraising. During the third quarter of 2010, the US legislature passed the Dodd-Frank Wall Street Reform and Consumer Protection Act (the Reform Act). At the same time, the EU proposed rules to regulate derivatives trading and adopted proposals to restrict

short sales and regulate credit default swaps (CDS). The Basel Committee on Banking Supervision (BCBS) announced the new Basel III capital, leverage and liquidity standards for financial institutions.

Global equity markets improved in 2010, although at a slower rate than in 2009. Worldwide, most major equity market indices advanced consistently through the year, with the exception of the second quarter. Credit spreads were volatile during the year, narrowing in the first quarter before widening significantly in the second quarter. At the end of the year, spreads were wider reflecting the second round of quantitative easing by the Fed and continued uncertainty in Europe.

Global debt underwriting volumes declined in 2010 compared to 2009 primarily due to lower investment grade issuance, substantially offset by record high yield issuance driven by refinancing and increased risk appetite in the second half of 2010. Global equity underwriting volumes also declined slightly from 2009 levels primarily due to a decrease in follow-on issuance compared to strong issuance levels in 2009 volumes. The decrease was partially offset by significantly higher initial public offerings (IPOs) volumes, with the fourth quarter of 2010 a record for quarterly IPOs issuance. Global announced mergers and acquisitions (M&A) and completed M&A activity were both higher in 2010 driven by an increase in cross-border and emerging markets activity and larger transaction sizes.

Most commodity prices performed strongly in 2010. Agricultural commodities reported gains of more than 40% due to crop failures in several markets and regions. Gold prices benefited from strong demand and low interest rates and reached new all-time highs above US$ 1,400 per ounce in December 2010.

***Performance***

The Group reported a net profit for the year ended 31 December 2010 of US$103M (2009: US$55M profit as restated). Net revenues increased to US$2,244M (2009: US$1,344M). After operating expenses the Group reported a profit before tax of US$331M (2009: US$292M loss as restated). Despite a difficult environment and heightened competitive pressures, the Group continued to advance its strategic initiatives and maintain market share momentum across targeted areas during the year.

Included in 2009 net revenues were two exceptional items: the US$692M impact of an increase in market credit risk provisions across investment grade counterparties; and US$579M of losses recognised during the period in exit businesses, the majority being valuation reductions in the mortgage backed securities businesses. There were no such exceptional items in 2010.

Excluding the impact of these exceptional charges in 2009, net revenues were lower in 2010 than the comparative 2009 period. Investment banking was adversely impacted by macroeconomic issues, which led to client risk aversion, reduced client activity and market volatility. In spite of this, the strategic businesses continued to gain market share momentum across most products reinforcing the directors' view that the client focussed, capital efficient strategy and reduced-risk business model can generate sustainable earnings even in more challenging markets.

Fixed Income revenues in 2010 reflected the impact of the volatile environment and normal seasonal patterns of stronger market volumes in the first half of the year. Nevertheless, many of the fixed Income businesses had strong results including Credit and Emerging Markets, as investors turned to higher yielding instruments. The Rates business delivered its second best performance ever, despite the difficult market conditions. Fixed income market share improved, with increases across all regions. The expansion of the sales force has enabled the Group to broaden portfolio offerings to most clients which, in turn, should lead to further market share gains going forward.

Equity revenues in 2010 were driven by solid results across product areas, including Equity Derivatives and Prime Services. The Equity Derivatives businesses experienced an overall fall in revenues compared to the highs of 2009. While both Structured and Corporate Derivative business performed well, flow business suffered as a result of decreased market activity and reduced spreads in a competitive market. The Equities business received numerous 'House of the Year' accolades in 2010, and maintained strong market share across regions, demonstrated by the measure market share by Index, where CS group is #1 across a number of exchanges.

Investment Banking revenues fell in 2010, due to a reduction in structured origination volumes for both the FID and Equity desks in 2010. The focused efforts made over the past year to deepen important client relationships and enhance advisory and underwriting capabilities provide an excellent platform for progression in 2011.

The Group's operating expenses were US$1,913M (2009: US$1,636M as restated). On January 1 2010, the Group adopted amendments to IFRS-2. The amendments to IFRS-2 are effective for annual periods beginning on or after 1 January 2010 and the Group has adopted the guidance retrospectively for their annual financial statements as

at 31 December 2010. Comparative information has been restated accordingly (See Note 2- Significant Accounting Policies).

The net increase in the operating expenses of US$277M is a result of the following:

- Recognition in 2009 of US$91M gain from sale and leaseback transaction of land and buildings. There is no similar transaction in 2010.

- A reduction in compensation and benefits expense of US$209M as a result of lower discretionary variable compensation accruals and lower expenses for deferred compensation awards granted in previous years. This is partially offset by an increase in base salaries and higher deferred compensation awards granted in 2010, and the inclusion of a US$167M expense pertaining to the UK bank payroll tax

- An increase in general and administrative expenses of US$395M, predominantly as a result of an increase in overheads allocated from Group.

The effective tax rate was 68.9% for the year ended 31 December 2010 (31 December 2009: 118.83% as restated). The high effective tax rate for the current period is due primarily to the Bank payroll tax, which is non deductible for UK tax purposes, and the write-down of the deferred tax asset due to a change in the UK corporation tax rate.

As at 31 December 2010, the Group had total assets of US$578,919M (31 December 2009: US$578,950 as restated) and total shareholders equity of US$11,413M (31 December 2009: US$10,810M as restated).

The UK Government is planning to introduce a Bank Levy for Banks or Banking groups operating in the UK in respect of non-exempt liabilities. The draft legislation is expected to be included in the forthcoming Finance Bill and receive Royal Assent in the summer. The levy is expected to apply to CSi and would apply to its liabilities at the balance sheet date (i.e. 31 December 2011). As currently drafted, short-term liabilities subject to the levy would be charged at 7.5 basis points and long-term liabilities at 3.75 basis points. No expense has been recognised in the 2010 accounts.

***Outlook***

The major regulatory developments of the past year underscore the sweeping changes that have taken place in the financial landscape. While questions remain to be answered, it is clear the Credit-Suisse client-focused, capital-efficient strategy is well-suited to the new environment. The steps that have been taken to reduce risk, strengthen capital position and shift the strategic model have enabled important first-mover advantage. The global reach puts Credit-Suisse at the center of capital flows between the emerging and mature economies. Credit Suisse has one of the strongest brands and reputations in the industry, as demonstrated by client momentum and ability to attract and retain great talent.

The Group has made a positive start to 2011 and the Directors remain confident about the prospects for 2011 given the strength of the business model and competitive position.

***Fair Value Measurement***

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

The fair value of the majority of the Group's financial instruments is either based on quoted prices in active markets for identical assets or liabilities ('Level 1') or inputs other than quoted prices included within Level 1 that are observable for the assets or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices) ('Level 2'). These instruments include government and agency securities, certain commercial paper, most investment grade corporate debt, certain high yield debt securities, exchange-traded and certain OTC derivative instruments and most listed equity securities. In addition, the Group holds financial instruments for which no prices are available and which have little or no observable inputs ('Level 3'). For these instruments, the determination of fair value requires subjective assessment and varying degrees of judgement depending on liquidity, concentration, pricing assumptions and 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 high yield debt securities, distressed debt securities, certain OTC derivatives, certain asset-backed and mortgage-backed securities, non-traded equity securities and other long term investments.

Total Level 3 assets were US$20.0BN as at 31 December 2010 (31 December 2009: US$23.3BN), which was equivalent to 3.46% of total assets.

Total Level 3 liabilities were US$20.1BN as at 31December 2010 (31 December 2009: US$25BN), which was equivalent to 3.54% of total liabilities.

The reduction in Level 3 assets and liabilities is primarily a result of the disposal of complex instruments in accordance with the Bank's strategy to de-risk the balance sheet.

**Capital Resources**

Throughout the year the Bank has accessed injections of capital and funding from CS group to ensure ongoing stability and support of its business activities. The Bank continues to closely monitor its capital and funding requirements on a daily basis. CS group has confirmed that it will ensure that the Bank is able to meet its debt obligations and maintain a sound financial position over the foreseeable future.

On 29 October 2010, participating non-voting issued share capital was increased from US$3,889,568,088 to US$4,389,568,088 by issue of 500,000,000 shares of US$1 allotted and issued in cash at par (refer to Note 26-Called-up Share Capital and Share Premium).

On 16 December 2010, the Bank passed a special resolution to undergo a capital restructuring in accordance with the Companies Act 2006. The purpose of the capital restructuring was to simplify the capital structure by reducing and cancelling US$3.852BN of share premium and reducing the accumulated loss in retained earnings by the same amount.

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

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

**Subsidiary Undertakings and Branches**

On 25 August 2010, Credit Suisse First Boston International (Australia) Limited was liquidated and deregistered. Credit Suisse First Boston International Warrants Limited was put into members' voluntary liquidation during 2005 by the Bank, and remains in liquidation (refer to Note 19-Significant Subsidiaries and Equity Method Investments).

**Dividends**

No dividends were paid or are proposed for the year ended 31 December 2010 (2009: US$Nil).

**Risk management (Audited except where specifically noted)**

***Overview***

The Bank is part of CS group and its risks are managed as part of the global CS group of entities. The CS group risk management process is designed to ensure that there are sufficient independent controls to measure, monitor and control risks in accordance with CSG's control framework and in consideration of industry best practices. The primary responsibility for risk management lies with CSG'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, country and reputational risk.

***Risk governance***

The prudent taking of risk in line with CS group's strategic priorities is fundamental to its business as a leading global bank. To meet the challenges in a fast changing industry with new market players and innovative and complex products, CS group continuously strengthens the risk function, which is independent of, but closely interacts with, the trading functions to ensure the appropriate flow of information. CS group's risk management framework is based on transparency, management accountability and independent oversight. As a consequence of the increased complexity of risks, CS group has defined its risk perspective broadly. Risk management plays an important role in CS group's business planning process and is strongly supported by senior management and the Board of Directors. The primary objectives of risk management are to protect CS group's financial strength and reputation, while ensuring that capital

is well deployed to support business activities and grow shareholder value. Although CS group has implemented risk management processes and control systems, it works to limit the impact of negative developments by managing concentrations of risks.

***Risk organisation***

Risks arise in all of CS group's business activities and cannot be completely eliminated, but they are managed through its internal control environment. CS group's risk management organisation reflects the specific nature of the various risks in order to ensure that risks are managed within limits set in a transparent and timely manner. At the level of the Boards of Directors, this includes the following responsibilities:

- CSG Board of Directors: Responsible to shareholders for the strategic direction, supervision and control of CS group and for defining its overall tolerance for risk.

- Boards of Directors of other CS group legal entities: Responsible for the strategic direction, supervision and control of the respective legal entity and for defining the legal entity's tolerance for risk.

- Risk Committees: Responsible for assisting the Boards of Directors of CSG and other CS group legal entities in fulfilling their oversight responsibilities by providing guidance regarding risk governance and the development of the risk profile and capital adequacy, including the regular review of major risk exposures and the approval of overall risk limits.

- Audit Committees: Responsible for assisting the Boards of Directors of the CSG and other CS group legal entities in fulfilling their oversight responsibilities by monitoring management's approach with respect to financial reporting, internal controls, accounting, and legal and regulatory compliance. Additionally, the Audit Committees are responsible for monitoring the independence and the performance of the internal and external auditors.

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

Committees are implemented at a senior management level to support risk management. The Risk Processes and Standards Committee is responsible for establishing and approving standards regarding risk management and risk measurement, including methodology and parameters. The Credit Portfolio and Provisions Review Committee 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 set policies, and reviews processes and significant cases relating to reputational risks. There are also Divisional Risk Management Committees ('RMC'), which manage risk on a divisional basis.

The risk committees are further supported by Treasury, which is responsible for the management of CS group's balance sheet, capital management, liquidity and related hedging policies.

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

- Strategic Risk Management (SRM)
- Risk Analytics and Reporting (RAR)
- Credit Risk Management (CRM)
- Bank Operational Risk Oversight (BORO)
- Business Continuity Management
- Reputational Risk Management

The risk management function is responsible for providing risk management oversight and establishing an organisational basis to manage all risk management matters through four primary risk functions: SRM assesses the Group'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; RAR is responsible for risk analytics,

reporting, systems implementation and policies; CRM is responsible for approving credit limits, monitoring and managing individual exposures and assessing and managing the quality of credit portfolios and allowances; and BORO acts as the central hub for the divisional operational risk functions. The risk management function also addresses critical risk areas such as business continuity and reputational risk management.

***Risk limits***

A sound system of risk limits is fundamental to effective risk management. The limits define CS group's maximum balance sheet and off-balance sheet exposure given the market environment, business strategy and financial resources available to absorb losses. CS group uses an Economic Capital ('EC') limit structure to manage overall risk-taking. The overall risk limits for the Group are set by the Board and its Risk Committee and are binding. Any excess of these limits will result in immediate notification to the Chairman of the Board's Risk Committee and the CEO of the Group, and written notification to the full Board at its next meeting. Following notification, the CRO can approve positions that exceed the Board limits by no more than an approved percentage with any such approval being reported to the full Board. Positions that exceed the Board limits by more than such approved percentage can only be approved by the CRO and the full Board acting jointly.

In the context of the overall risk appetite of the Group, as defined by the limits set by the Board and its Risk Committee, CARMC is responsible for setting legal entity and divisional risk limits and more specific limits deemed necessary to control the concentration of risk within individual lines of business. Limit measures used include VaR, economic capital, exposure, risk sensitivity and scenario analysis. The framework encompasses specific limits on a large number of different product and risk type concentrations. For example, there are consolidated controls over trading exposures, the mismatch of interest-earning assets and interest-bearing liabilities, private equity and seed money, and emerging market country exposures. Risk limits are allocated to lower organisational levels within the businesses, and numerous other limits are established for specific risks, including a system of individual counterparty credit limits that is used to control concentration risks. CARMC limits are binding and generally set at a tight level to ensure that any meaningful increase in risk exposures is promptly escalated.

The majority of these limits are monitored on a daily basis. Limits for which the inherent calculation time is longer (such as those for economic capital) are monitored on a weekly basis. A smaller sub-set of limits relating to exposures for which the risk profile changes more infrequently (for example, those relating to illiquid investments) is monitored on a monthly basis. For further details of the limits management framework, refer to Risk management – Risk Limits in the CSG Annual Report.

The Group's financial risk management objectives and policies and the exposure of the Group to market risk, credit risk, liquidity risk and currency risk are outlined in Note 37-Financial Instruments Risk Positions.

***Economic capital and position risk***

Economic Capital ('EC') is the core CS group-wide risk management tool and is integrated throughout, being calculated, reported and monitored at both the legal entity level (for material subsidiaries) and on a divisional basis. 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 CS group's portfolio of positions over a one-year horizon that is exceeded with a given small probability (1% for risk management purposes; 0.03% for capital management purposes).

CS group regularly reviews the EC methodology to ensure the model remains relevant as markets and business strategies evolve. In 2010, a number of enhancements to the position risk methodology for risk management purposes, including emerging markets were made.

As of 31 December 2010 the 99% Position risk was US$ 3,257M (2009: US$ 3,296M) for the Group which was within the agreed limit[1].

[1] Unaudited

**Directors**

The names of the directors as at the date of this report are set out on page 2. Changes in the directorate since 31 December 2009 and up to the date of this report are as follows:

| Appointment: | |
|---|---|
| Fawzi Kyriakos-Saad (Chairman) | 1 July 2010 |
| Eraj Shirvani | 12 April 2010 |
| Rudolf Bless | 7 June 2010 |
| Daniel McHugh | 13 September 2010 |
| Christopher Horne | 28 October 2010 |

| Resignation: | |
|---|---|
| Eric Varvel | 1 July 2010 |
| Gael de Boissard | 12 April 2010 |
| Renato Fassbind | 7 June 2010 |

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

**Internal Control and Financial Reporting**

The directors are responsible for internal control in the group and for reviewing its effectiveness. Procedures have been designed for safeguarding assets against unauthorised use of disposition; for maintaining proper accounting records; and for the reliability of financial information used within the business or for publication. 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 the directors have established are designed to provide effective internal control within the group. Such procedures for the ongoing identification, evaluation and management of the significant risks faced by the group have been in place throughout the year and up to 31 March 2011, the date of approval of the Consolidated Annual Report for 2010.

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 of the company delegates certain functions and responsibilities to the following Board committees:

Credit Suisse International Disclosure Committee

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

Credit Suisse International Audit Committee

The purpose of the Committee is to:

- review the Internal Audit Plan to ensure its adequacy, as it pertains to the bank
- 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 / management letters

- review the Annual Financial Statements on behalf of the Board
- report significant issues to the Board.

**Disclosure of Information to Auditors**

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

**Employee Involvement and Employment of Disabled Persons**

The CS group gives full and fair consideration to disabled persons in employment applications, training and career development including those who become disabled during their period of employment.

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

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

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

**Donations**

During the year the Group made US$18,585 (2009: US$10,638) of charitable donations. There were no political donations made by the Group during the year (2009: US$Nil).

**Auditors**

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

**Subsequent Events**

In the budget announcement of 23 March 2011, the UK government announced its intention to further reduce the corporation tax rate by 1% with effect from 1 April 2011. The impact of this change when substantially enacted will be to decrease the deferred tax asset recorded as at 31 December 2010 by US$66M.

By Order of the Board

Paul E Hare
Company Secretary

One Cabot Square
London E14 4QJ
31 March 2011

# CREDIT SUISSE INTERNATIONAL
## STATEMENT OF DIRECTORS' RESPONSIBILITIES

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

Company law requires the Directors to prepare group and Bank financial statements for each financial year. Under that law they are required to prepare the group financial statements in accordance with IFRSs as adopted by the EU, Article 4 of the IAS Regulation and applicable law and have elected to prepare the Bank financial statements on the same basis.

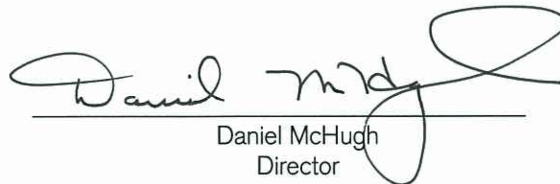
Under company law the Directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the group and Bank and of their profit or loss for that period. In preparing each of the Group and Bank financial statements, the Directors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

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

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

Under applicable law and regulations, the directors are also responsible for preparing a Directors' Report that complies with that law and those regulations.

Signed on behalf of the Board of Directors on 31 March 2011 by:



Daniel McHugh
Director

# INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF CREDIT SUISSE INTERNATIONAL

We have audited the financial statements of Credit Suisse International for the year ended 31 December 2010 set out on pages 14 to 20. The financial reporting framework that has been applied in their preparation is applicable law and International Financial Reporting Standards (IFRSs) as adopted by the EU and, as regards the parent company ("the Bank") financial statements, as applied in accordance with the provisions of the Companies Act 2006.

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

**Respective Responsibilities of Directors and Auditors**

As explained more fully in the Directors' Responsibilities Statement set out on page 12, the Directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's (APB's) Ethical Standards for Auditors.

**Scope of the audit of the financial statements**

A description of the scope of an audit of financial statements is provided on the APB's web-site at http://www.frc.org.uk/apb/scope/private.cfm

**Opinion on financial statements**

In our opinion:

- the financial statements give a true and fair view of the state of the Group's and of the Bank's affairs as at 31 December 2010 and of the group's profit for the year then ended;
- the Group financial statements have been properly prepared in accordance with IFRSs as adopted by the EU;
- the Bank financial statements have been properly prepared in accordance with IFRSs as adopted by the EU and as applied in accordance with the provisions of the Companies Act 2006; and
- the financial statements have been prepared in accordance with the requirements of the Companies Act 2006 and, as regards the group financial statements, Article 4 of the IAS Regulation.

**Opinion on other matters prescribed by the Companies Act 2006**

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

**Matters on which we are required to report by exception**

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

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

H R Horgan
(Senior Statutory Auditor)

For and on behalf of KPMG Audit Plc, Statutory Auditor
Chartered Accountants
London
31 March 2011

# CREDIT SUISSE INTERNATIONAL
## CONSOLIDATED STATEMENTS OF INCOME FOR THE YEAR ENDED 31 DECEMBER 2010

| | Note | 2010 US$M | 2009 US$M (restated)[1] |
|---|---|---|---|
| Interest income | 5 | 1,118 | 1,541 |
| Interest expense | 5 | (1,034) | (1,677) |
| Net interest income/(expense) | | 84 | (136) |
| Provision for credit losses | 15 | 53 | (125) |
| Commission and fee expense | 6 | (37) | (140) |
| Net gains from financial assets/liabilities at fair value through profit or loss | 7 | 3,178 | 2,501 |
| Income from equity method investments | 19 | 18 | - |
| Revenue sharing agreements expense | 8 | (1,052) | (756) |
| **Net revenues** | | **2,244** | **1,344** |
| Gain on sale of property | | - | 91 |
| Compensation and benefits | 9 | (712) | (921) |
| General and administrative expenses | 10 | (1,201) | (806) |
| **Total operating expenses** | | **(1,913)** | **(1,636)** |
| **Profit/(loss) before taxes** | | **331** | **(292)** |
| Income tax (charge)/credit | 11 | (228) | 347 |
| **Net profit attributable to Credit Suisse International shareholders** | | **103** | **55** |

[1] On 1 January 2010, the Group adopted amendments to IFRS 2-Group Cash-settled Share-based Payment Transactions. Comparative information has been restated accordingly (See Note 2).

Profit for both 2010 and 2009 is from continuing operations.

The Bank's profit after tax was US$107M for the year ended 31 December 2010 (2009:US$127M, as restated)

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

The notes on pages 21 to 113 form an integral part of the Financial Statements.

# CREDIT SUISSE INTERNATIONAL
## CONSOLIDATED STATEMENTS OF FINANCIAL POSITION AS AT 31 DECEMBER 2010

| | Note | 2010 US$M | 2009 US$M (restated)[1] |
|---|---|---|---|
| **Assets** | | | |
| Cash and due from banks | | 20,863 | 19,130 |
| Interest-bearing deposits with banks | | 127 | 255 |
| Securities purchased under resale agreements and securities borrowing transactions | 13 | 16,132 | 19,337 |
| Trading financial assets at fair value through profit or loss | 14 | 459,890 | 459,520 |
| of which positive market values from derivative instruments | | 406,713 | 409,873 |
| Financial assets designated at fair value through profit or loss | 14 | 24,479 | 29,681 |
| Other loans and receivables | 15 | 5,519 | 6,234 |
| Equity method investments | 19 | 647 | - |
| Other investments | | 36 | - |
| Investment property | 16 | 652 | 34 |
| Current tax assets | | 221 | 224 |
| Deferred tax assets | 12 | 1,935 | 2,148 |
| Other assets | 17 | 47,811 | 41,856 |
| Intangible assets | 20 | 325 | 256 |
| Property and equipment | 21 | 282 | 275 |
| **Total assets** | | **578,919** | **578,950** |
| | | | |
| **Liabilities** | | | |
| Deposits | 22 | 2,733 | 2,231 |
| Securities sold under repurchase agreements and securities lending transactions | 13 | 7,885 | 4,120 |
| Trading financial liabilities at fair value through profit or loss | 14 | 434,579 | 437,653 |
| of which negative market values from derivative instruments | | 418,193 | 420,068 |
| Financial liabilities designated at fair value through profit or loss | 14 | 34,142 | 43,071 |
| Short term borrowings | 23 | 19,024 | 28,038 |
| Other liabilities | 17 | 38,696 | 40,199 |
| Provisions | 24 | 18 | 40 |
| Long term debt | 25 | 30,429 | 12,788 |
| **Total liabilities** | | **567,506** | **568,140** |
| **Shareholders' equity** | | | |
| Called-up share capital | 26 | 9,625 | 9,125 |
| Share premium account | 26 | 1,016 | 4,868 |
| Retained earnings | | 772 | (3,183) |
| **Total shareholders' equity** | | **11,413** | **10,810** |
| **Total liabilities and equity** | | **578,919** | **578,950** |

[1] On 1 January 2010, the Group adopted amendments to IFRS 2-Group Cash-settled Share-based Payment Transactions. Comparative information has been restated accordingly (See Note 2).

The notes on pages 21 to 113 form an integral part of the Financial Statements.

Approved by the Board of Directors on 31 March 2011 and signed on its behalf by:

Daniel McHugh
Director

# CREDIT SUISSE INTERNATIONAL

## BANK STATEMENTS OF FINANCIAL POSITION AS AT 31 DECEMBER 2010

| | Note | 2010 US$M | 2009 US$M (restated)[1] |
|---|---|---|---|
| **Assets** | | | |
| Cash and due from banks | | 20,691 | 18,641 |
| Interest-bearing deposits with banks | | 110 | 238 |
| Securities purchased under resale agreements and securities borrowing transactions | 13 | 16,132 | 19,337 |
| Trading financial assets at fair value through profit or loss | 14 | 460,829 | 459,560 |
| of which positive market values from derivative instruments | | 407,299 | 410,736 |
| Financial assets designated at fair value through profit or loss | 14 | 26,276 | 29,924 |
| Other loans and receivables | 15 | 5,519 | 6,234 |
| Current tax assets | | 138 | 204 |
| Deferred tax assets | 12 | 1,935 | 2,148 |
| Other assets | 17 | 49,334 | 43,321 |
| Investments in subsidiary undertakings | 19 | 27 | 27 |
| Intangible assets | 20 | 325 | 256 |
| Property and equipment | 21 | 282 | 275 |
| **Total assets** | | **581,598** | **580,165** |
| | | | |
| **Liabilities** | | | |
| Deposits | 22 | 2,731 | 2,195 |
| Securities sold under resale agreements and securities lending transactions | 13 | 7,885 | 4,120 |
| Trading financial liabilities at fair value through profit or loss | 14 | 435,062 | 437,986 |
| of which negative market values from derivative instruments | | 418,676 | 420,401 |
| Financial liabilities designated at fair value through profit or loss | 14 | 34,857 | 42,727 |
| Short term borrowings | 23 | 19,262 | 28,300 |
| Other liabilities | 17 | 39,999 | 41,242 |
| Provisions | 24 | 18 | 40 |
| Long term debt | 25 | 30,410 | 12,788 |
| **Total liabilities** | | **570,224** | **569,398** |
| **Shareholders' equity** | | | |
| Called-up share capital | 26 | 9,625 | 9,125 |
| Share premium account | 26 | 1,016 | 4,868 |
| Retained earnings | | 733 | (3,226) |
| **Total shareholders' equity** | | **11,374** | **10,767** |
| **Total liabilities and equity** | | **581,598** | **580,165** |

[1] On 1 January 2010, the Group adopted amendments to IFRS 2-Group Cash-settled Share-based Payment Transactions. Comparative information has been restated accordingly (See Note 2).

The notes on pages 21 to 113 form an integral part of the Financial Statements.

Approved by the Board of Directors on 31 March 2011 and signed on its behalf by:

Daniel McHugh
Director

# CREDIT SUISSE INTERNATIONAL

## CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY FOR THE YEAR ENDED 31 DECEMBER 2010

| | Share Capital | Share Premium | Retained Earnings | Share-based Payment Reserve | Total |
|---|---|---|---|---|---|
| | US$M | US$M | US$M (restated)[1] | US$M (restated)[1] | US$M (restated)[1] |
| **Balance at 1 January 2010** | **9,125** | **4,868** | **(3,104)** | **146** | **11,035** |
| Transition adjustment for IFRS-2, pre-tax (Note 2) | - | - | (119) | (110) | (229) |
| Transition adjustment for IFRS-2, tax | - | - | 40 | (36) | 4 |
| **Balance at 1 January 2010, restated** | **9,125** | **4,868** | **(3,183)** | **-** | **10,810** |
| Profit for the period | - | - | 103 | - | 103 |
| Capital restructuring (refer Note 26) | - | (3,852) | 3,852 | - | - |
| Issue of shares | 500 | | | | 500 |
| Redemption of shares | - | - | - | - | - |
| **Balance at 31 December 2010** | **9,625** | **1,016** | **772** | **-** | **11,413** |

| | Share Capital | Share Premium | Retained Earnings | Share-based Payment Reserve | Total |
|---|---|---|---|---|---|
| | US$M | US$M | US$M (restated)[1] | US$M (restated)[1] | US$M (restated)[1] |
| **Balance at 1 January 2009** | **8,542** | **4,126** | **(3,286)** | **191** | **9,573** |
| Transition adjustment for IFRS-2, pre-tax (Note 2) | - | - | 40 | (180) | (140) |
| Transition adjustment for IFRS-2, tax | - | - | 8 | (11) | (3) |
| **Balance at 1 January 2009, restated** | **8,542** | **4,126** | **(3,238)** | **-** | **9,430** |
| Profit for the period | - | - | 55 | - | 55 |
| Issue of shares | 958 | 742 | - | - | 1,700 |
| Redemption of shares | (375) | - | - | - | (375) |
| **Balance at 31 December 2009** | **9,125** | **4,868** | **(3,183)** | **-** | **10,810** |

[1] On 1 January 2010, the Group adopted amendments to IFRS 2-Group Cash-settled Share-based Payment Transactions. Comparative information has been restated accordingly (See Note 2).

There were no dividends paid during 2010 (2009: Nil).

The notes on pages 21 to 113 form an integral part of the Financial Statements.

## CREDIT SUISSE INTERNATIONAL
## BANK STATEMENTS OF CHANGES IN EQUITY FOR THE YEAR ENDED 31 DECEMBER 2010

| | Share Capital | Share Premium | Retained Earnings | Share-based Payment Reserve | Total |
|---|---|---|---|---|---|
| | US$M | US$M | US$M (restated)[1] | US$M (restated)[1] | US$M (restated)[1] |
| **Balance at 1 January 2010** | **9,125** | **4,868** | **(3,147)** | **146** | **10,992** |
| Transition adjustment for IFRS-2, pre-tax (Note 2) | - | - | (119) | (110) | (228) |
| Transition adjustment for IFRS-2, tax | - | - | 40 | (36) | 4 |
| **Balance at 1 January 2010, restated** | **9,125** | **4,868** | **(3,226)** | **-** | **10,768** |
| Profit for the period | - | - | 107 | - | 107 |
| Capital restructuring (refer Note 26) | - | (3,852) | 3,852 | - | - |
| Issue of shares | 500 | - | - | - | 500 |
| Redemption of shares | - | - | - | - | - |
| **Balance at 31 December 2010** | **9,625** | **1,016** | **733** | **-** | **11,374** |

| | Share Capital | Share Premium | Retained Earnings | Share-based Payment Reserve | Total |
|---|---|---|---|---|---|
| | US$M | US$M | US$M (restated)[1] | US$M (restated)[1] | US$M (restated)[1] |
| **Balance at 1 January 2009** | **8,542** | **4,126** | **(3,401)** | **191** | **9,458** |
| Transition adjustment for IFRS-2, pre-tax (Note 2) | - | - | 40 | (180) | (140) |
| Transition adjustment for IFRS-2, tax | - | - | 8 | (11) | (3) |
| **Balance at 1 January 2009, restated** | **8,542** | **4,126** | **(3,353)** | **-** | **9,315** |
| Profit for the period | - | - | 127 | - | 127 |
| Issue of shares | 958 | 742 | - | - | 1,700 |
| Redemption of shares | (375) | - | - | - | (375) |
| **Balance at 31 December 2009** | **9,125** | **4,868** | **(3,226)** | **-** | **10,767** |

[1] On 1 January 2010, the Group adopted amendments to IFRS 2-Group Cash-settled Share-based Payment Transactions. Comparative information has been restated accordingly (See Note 2).

There were no dividends paid during 2010 (2009: Nil).

The notes on pages 21 to 113 form an integral part of the Financial Statements.

# CREDIT SUISSE INTERNATIONAL

## CONSOLIDATED STATEMENTS OF CASH FLOWS FOR THE YEAR ENDED 31 DECEMBER 2010

| Cash flows from operating activities | Note | 2010 US$M | 2009 US$M (restated)[1] |
|---|---|---|---|
| Profit/(Loss) before tax for the period | | 331 | (292) |
| **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 | 163 | 149 |
| Disposal of property and equipment | 21 | 1 | 2 |
| Disposal of intangible assets | 20 | - | 6 |
| Interest accrued on long term debt | 5 | 557 | 416 |
| Interest accrued on tax balances | | (22) | - |
| Provision for credit losses | 15 | (53) | 125 |
| Impairment/(reversal) on loan | | 1 | (9) |
| Foreign exchange gains | | 512 | 89 |
| Impairment on repossessed collateral | 16 | 11 | - |
| Gain on sale of long leasehold land and building | | - | (91) |
| Provisions | 24 | 3 | 6 |
| Cash generated before changes in operating assets and liabilities | | 1,173 | 693 |
| Net decrease in operating assets: | | | |
| Interest bearing deposits with banks | | 128 | 94 |
| Securities repurchased under resale agreements and securities borrowing transactions | | 3,205 | (10,379) |
| Trading financial assets at fair value through profit or loss | | (1,052) | 347,447 |
| Financial assets designated at fair value through profit or loss | | 5,202 | 4,770 |
| Investment property | | (652) | - |
| Disposal of repossessed collateral | | 23 | - |
| Decrease in deferred tax asset due to deconsolidation | | - | 29 |
| Other loans and receivables | | 768 | 944 |
| Other assets | | (5,955) | 9,674 |
| Net decrease in operating assets | | 1,667 | 352,579 |
| Net decrease in operating liabilities: | | | |
| Deposits | | 5 | (98) |
| Securities sold under resale agreements and securities lending transactions | | 3,765 | (4,899) |
| Trading financial liabilities | | (3,074) | (319,091) |
| Financial liabilities designated at fair value through profit or loss | | (8,929) | 2,373 |
| Short term borrowings | | (9,014) | (51,240) |
| Other liabilities and provisions | | (1,446) | (27,961) |
| Share-based compensation | | (83) | (140) |
| Net decrease in operating liabilities | | (18,776) | (401,056) |
| **Net cash used in operating activities** | | **(15,605)** | **(48,076)** |
| Income taxes refund | | 85 | 362 |
| Income taxes paid | | (85) | (34) |
| **Net cash used in operating activities** | | **(15,605)** | **(47,748)** |
| **Cash flows from investing activities** | | | |
| Sale proceeds of long leasehold land and building | | - | 152 |
| Capital expenditures for property, equipment and intangible assets | 20,21 | (240) | (190) |
| **Net cash used in investing activities** | | **(240)** | **(38)** |
| **Cash flows from financing activities** | | | |
| Issuances of long term debt (including long term debt at fair value through profit or loss) | | 16,724 | 1,723 |
| Repayments of long term debt (including long term debt at fair value through profit or loss) | | (143) | (76) |
| Issue of shares | 26 | 500 | 1,700 |
| Redemption of shares | 26 | - | (375) |
| **Net cash provided by financing activities** | | **17,081** | **2,972** |
| **Net increase/(decrease) in cash and due from banks** | | **1,236** | **(44,814)** |
| Cash and due from banks at beginning of period | | 16,903 | 61,717 |
| **Cash and due from banks at end of period** | | **18,139** | **16,903** |
| Cash and due from banks | | 20,863 | 19,130 |
| Demand deposits | | (2,724) | (2,227) |
| **Cash and due from banks at end of period** | | **18,139** | **16,903** |

[1] On 1 January 2010, the Group adopted amendments to IFRS 2-Group Cash-settled Share-based Payment Transactions. Comparative information has been restated accordingly (See Note 2).

# CREDIT SUISSE INTERNATIONAL

## BANK STATEMENTS OF CASH FLOWS FOR THE YEAR ENDED 31 DECEMBER 2010

| | Note | 2010 US$M | 2009 US$M (restated)[1] |
|---|---|---|---|
| **Cash flows from operating activities** | | | |
| Profit/(Loss) before tax for the period | | 335 | (223) |
| **Adjustments to reconcile net profit to net cash used in operating activities** | | | |
| Non-cash items included in profit/(loss) before tax and other adjustments: | | | |
| Impairment, depreciation and amortisation | 20,21 | 163 | 149 |
| Disposal of property and equipment | 21 | 1 | 2 |
| Disposal of intangible assets | 20 | - | 6 |
| Interest accrued on long term debt | 5 | 557 | 416 |
| Interest accrued on tax balances | | (22) | - |
| Provision for credit losses | 15 | (53) | 125 |
| Impairment/(reversal) on loan | | 1 | (9) |
| Foreign exchange gains | | 511 | 89 |
| Gain on sale of long leasehold land and building | | - | (91) |
| Provisions | 24 | 3 | 6 |
| Cash generated before changes in operating assets and liabilities | | 1,161 | 693 |
| Net decrease in operating assets: | | | |
| Interest bearing deposits with banks | | 128 | 94 |
| Securities purchased under resale agreements and securities borrowing transactions | | 3,205 | (11,189) |
| Trading financial assets at fair value through profit or loss | | (1,269) | 359,227 |
| Financial assets designated at fair value through profit or loss | | 3,648 | 1,685 |
| Other loans and receivables | | 768 | 954 |
| Other assets | | (6,013) | 9,427 |
| Net decrease in operating assets | | 467 | 360,198 |
| Net decrease in operating liabilities: | | | |
| Deposits | | 5 | (98) |
| Securities sold under resale agreements and securities lending transactions | | 3,765 | (5,312) |
| Trading financial liabilities | | (2,924) | (318,948) |
| Financial liabilities designated at fair value through profit or loss | | (7,870) | 5,575 |
| Short term borrowings | | (9,037) | (61,867) |
| Other liabilities and provisions | | (1,183) | (27,836) |
| Share-based compensation | | (86) | (140) |
| Net decrease in operating liabilities | | (17,330) | (408,626) |
| **Net cash used in operating activities** | | **(15,367)** | **(47,958)** |
| Income taxes refund | | 66 | 327 |
| Income taxes paid | | (1) | (14) |
| **Net cash used in operating activities** | | **(15,302)** | **(47,645)** |
| **Investing activities** | | | |
| Sale proceeds of long leasehold land and building | | - | 152 |
| Capital expenditures for property, equipment and intangible assets | 20,21 | (240) | (190) |
| **Net cash used in investing activities** | | **(240)** | **(38)** |
| **Cash flows from financing activities** | | | |
| Issuances of long term debt (including long term debt at fair value through profit or loss) | | 16,704 | 1,723 |
| Repayments of long term debt (including long term debt at fair value through profit or loss) | | (143) | (76) |
| Issue of shares | 26 | 500 | 1,700 |
| Redemption of shares | 26 | - | (375) |
| **Net cash provided by financing activities** | | **17,061** | **2,972** |
| **Net increase/(decrease) in cash and due from banks** | | **1,519** | **(44,711)** |
| Cash and due from banks at beginning of period | | 16,450 | 61,161 |
| **Cash and due from banks at end of period** | | **17,969** | **16,450** |
| Cash and due from banks | | 20,691 | 18,641 |
| Demand deposits | | (2,722) | (2,191) |
| **Cash and due from banks at end of period** | | **17,969** | **16,450** |

[1] On 1 January 2010, the Group adopted amendments to IFRS 2-Group Cash-settled Share-based Payment Transactions. Comparative information has been restated accordingly (See Note 2).

The notes on pages 21 to 113 form an integral part of the Financial Statements.

## 1. General

Credit Suisse International ('CSi' or the 'Bank') is a bank domiciled in the United Kingdom. The address of the Bank's registered office is One Cabot Square, London, E14 4QJ. The Consolidated Financial Statements for the year ended 31 December 2010 comprise CSi and its subsidiaries (together referred to as the 'Group').

## 2. Significant Accounting Policies

### a) Statement of compliance

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

### b) Basis of preparation

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

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

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

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

***Standards and Interpretations effective in the current period***
The Group has adopted the following amendments and interpretation in the current year:

- IFRS 2 Amendments – The Group has applied Amendments to IFRS2 *Group Cash-settled Share-based Payment Transactions*, issued on 18 June 2009. The amendments clarify the scope and the accounting for group cash-settled share-based payment transactions of the entity receiving the goods or services when that entity has the obligation to settle the share-based payment transaction. It also requires the application of the standard in accounting for all share-based payment transactions, whether or not the entity can identify specifically some or all the goods or services received. Refer to Note 2(w) *'Share based payments'* for impact.

***Standards and Interpretations in issue but not yet effective***
The Group is not required to adopt the following standards and interpretations which are issued but not yet effective.

- Revised IAS 24 *Related Party Disclosures* - The objective of the revised IAS 24 is to simplify and ensure that an entity's financial statements contain the disclosures necessary to draw attention to the possibility that its financial position and profit or loss may have been affected by the existence of related parties and by transactions and outstanding balances with such parties.

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

- Improvements to IFRSs (Issued by IASB in May 2010) - These amendments which resulted from IASB's annual improvements project comprise amendments that result in accounting charges for presentation, recognition or measurement purposes as well as terminology or editorial amendments related to a variety of individual IFRS standards.
- Amendments to IFRS 1 *Additional Exemptions for First-time Adopters* – the amendments provide relief for first-time adopters of IFRSs from having to reconstruct transactions that occurred before their date of transition to IFRSs and provide guidance for entities emerging from severe hyperinflation either to resume presenting IFRS financial statements or to present IFRS financial statements for the first time.
- IFRIC 14 *Amendment to Prepayments of a Minimum Funding Requirement* - The amendments corrects an unintended consequence of IFRIC 14 IAS 19 – The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction. Without the amendments, in some circumstances entities are not permitted to recognise as an asset some voluntary prepayments for minimum funding contributions.
- IFRIC 19 - Extinguishing Financial Liabilities with Equity Instruments - IFRIC 19 addresses only the accounting by the entity that issues equity instruments in order to settle, in full or in part, a financial liability. It does not address the accounting by the creditor (lender).

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

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

**c) Basis of consolidation**

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

A subsidiary is an entity in which the Bank 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 Bank 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 Group reassesses consolidation status at least every quarterly reporting date.

The Group also consolidates subsidiaries when the substance of the relationship between the Group and the subsidiary indicates that the subsidiary is controlled by the 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, plus any costs directly related to the acquisition. The excess of the cost of an acquisition over the Group's share of the fair value of the identifiable net assets acquired is recorded as goodwill. If the acquisition cost is below the fair value of the identifiable net assets (negative goodwill), a gain may be reported in other income.

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

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

**d) Equity method investments**

An equity method investment is an entity in which the Group has significant influence, but not control, over the operating and financial management policy decisions. This is generally demonstrated by the 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 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 Group and the entity. Consideration of those factors might indicate that the Group has significant influence over another entity even though the Group's investment is for less than 20% of the voting rights.

Equity method investments are initially recorded at cost and increased (or decreased) each year by the 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 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 Group does not recognise further losses, unless it has incurred obligations or made payments on behalf of the entity.

**e) Foreign currency**

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

**f) Cash and due from banks**

For the purpose of preparation and presentation of Consolidated Statements 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 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**

Securities purchased under resale agreements ('reverse repurchase agreements') and securities sold under resale agreements ('repurchase agreements') are generally treated as collateralised financing transactions. In reverse repurchase agreements, the cash advanced, including accrued interest is recognised on the Consolidated Statements of Financial Position as an asset. In repurchase agreements, the cash received, including accrued interest is recognised on the Consolidated Statements 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 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.

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

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 for agreements that are not classified as financial assets or other financial liabilities designated at fair value through profit or loss.

**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 Positions unless the risks and rewards of ownership are also transferred. If cash collateral is advanced or received, securities borrowing and lending activities are recorded at the amount of cash collateral advanced (cash collateral on securities borrowed) or received (cash collateral on securities lent). The sale of securities received in a security borrowing transaction results in the recognition of a trading liability (short sale).

The 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 Statements of Financial Position regardless of whether these instruments are held for trading or risk management purposes.

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

The fair value recorded for derivative instruments does not indicate future gains or losses, but rather the unrealised gains and losses from valuing all derivatives at a particular point in time. The fair value of exchange-traded derivatives is typically derived from observable market prices and/or observable market parameters. Fair values for OTC derivatives are determined on the basis of internally developed proprietary models using various input parameters. Where the input parameters cannot be validated using observable market data, reserves are established for unrealised gains or losses evident at the inception of the contracts so that no gain or loss is recorded at inception. Such reserves are amortised to income over the life of the instrument or released into income when observable market data becomes available. For further information on fair value determination of derivative instruments, refer to Note 34 – 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 Statements 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 Statements of Income. Once separated, the derivative is recorded in the same line in the Consolidated Statements of Financial Position as the host instrument.

***Hedge accounting***

Where hedge accounting is applied, the Group formally documents all relationships between hedging instruments and hedged items, including the risk management objectives and strategy for undertaking hedge transactions. At inception of a hedge and on an ongoing basis, the hedge relationship is formally assessed to determine whether the derivatives that are used in hedging transactions are highly effective in offsetting changes in fair values of hedged

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

items attributable to the hedged risk on both a retrospective and prospective basis. The Group discontinues hedge accounting prospectively in circumstances where:

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

***Fair value hedge accounting***

For derivatives that are designated and qualify as fair value hedges, the carrying value of the underlying hedged items is adjusted by the change in the fair value attributable to the risk being hedged. Changes in the fair value of these derivatives are recorded in the same line item of the Consolidated Statements of Income as the change in fair value of the risk being hedged for the hedged assets or liabilities to the extent the hedge is effective. Hedge ineffectiveness is separately recorded net gains/ (losses) from financial assets/liabilities at fair value through profit or loss.

When the Group discontinues fair value hedge accounting the derivative will continue to be carried on the Statement of Financial Positions at its fair value and the hedged asset or liability will no longer be adjusted for changes in fair value attributable to the hedged risk. Fair value adjustments previously recorded on the underlying hedged items, where these hedged items are interest-bearing instruments, will be amortised to the Consolidated Statements of Income over the remaining life of the hedged item according to the effective interest rate method. Any unamortised fair value adjustment of an interest-bearing instrument is to be reclassified to the Consolidated Statements of Income upon sale or extinguishment of the hedged asset or liability, respectively. Fair value hedge adjustments previously made to the carrying value of the underlying hedged item, where the hedged item is not an interest-bearing instrument, are recognised in the Consolidated Statements of Income when the hedged item affects net income, which is usually when the instrument is disposed of.

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

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

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

IAS 39- *Financial Instruments: Recognition and Measurement* (IAS 39) permits an entity to reclassify non derivative financial assets, other than those designated at fair value through profit or loss (i.e. trading financial assets) upon initial recognition, out of the fair value through profit or loss category if they are no longer held for the purpose of being sold or repurchased in the near term, as follows:

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

(ii) if the financial asset would not have met the definition of loans and receivables, then it may be reclassified out of the trading category only in 'rare circumstances'.

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

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

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

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

(ii) a group of financial assets, financial liabilities or both is managed and its performance is evaluated on a fair value basis, in accordance with a documented risk management or investment strategy, and information about the 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.

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

**k) Recognition and Derecognition**

***Recognition***
The Group recognises financial instruments on its Consolidated Statements of Financial Position when the 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 Group recognises regular-way purchases or sales of financial assets at the trade date.

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

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

The Group derecognises a financial liability when its contractual obligations are discharged or cancelled or expire. Where the 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 Statements 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 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 Group’s retained interests do not result in consolidation of the special purpose entity, nor in continued recognition of the transferred assets, these retained tranches are typically recorded in trading financial assets at fair value through profit or loss. Gains or losses on securitisation are recognised in profit or loss. The line item in the Consolidated Statements 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 recognised when cash is advanced to borrowers. They are initially recorded at fair value, plus any directly attributable transaction costs and subsequently are amortised on an effective interest method, less impairment losses.

When calculating the effective interest, the 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 Group assesses at each balance sheet 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 balance sheet date (“a loss event”) and that loss event or events has had an impact on the estimated future cash flows of the financial asset or the portfolio that can be reliably estimated. All individually significant loans are assessed for specific impairment. Individually significant loans found not to be impaired are then collectively assessed for impairment that has incurred, but not yet been identified. Loans that are not individually significant are assessed collectively for impairment. Loans subject to collective impairment testing are grouped to loan portfolios on the basis of similar risk, industry or country rating. Objective evidence that an individual loan is impaired can include significant financial difficulty of the borrower, default or delinquency by the borrower and indications that a borrower will enter bankruptcy. Objective evidence that a loan portfolio is impaired can include changes of the payment status of borrowers in the group or economic conditions that correlate with defaults in the group.

Many factors can affect the 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.

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 Statements 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

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

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 Group, the loan and any associated allowance is written off. Any repossessed collateral is initially measured at fair value. The subsequent measurement will depend on the nature of the collateral.

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

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

**m) Netting**

The Group only offsets financial assets and liabilities and presents the net amount on the Statement of Financial Positions where it:
- currently has a legally enforceable right to set off the recognised amounts; and
- intends either to settle on a net basis, or to realise the asset and liability simultaneously.

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

**n) Income tax**

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

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 Statements 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 balance sheet date.

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

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 on the profit and loss for the periods presented is included in Note 11 – Income Tax.

**o) Investment property**

Investment property is property held to earn rentals or for capital appreciation or both. Investment property is initially measured at cost, and subsequent to initial recognition is measured using either the fair value or cost models. When fair value is chosen, changes in fair value are recognised in profit or loss. Cost is measured less impairment.

**p) Intangible assets**

Intangible assets consist primarily of internally developed software. Expenditure on internally developed software is recognised as an asset when the 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 Statements of Income.

The carrying amounts of the 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 Statements of Income.

**q) Property and equipment**

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

Subsequent costs are included in the asset's carrying amount or are recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be reliably measured. All other repairs and maintenance are charged to the Consolidated Statements 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 estimated useful lives, as follows:

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

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

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

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

**r) Preference share capital**

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

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

**s) Compensation and benefits**

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

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

***Other compensation plans***
The Group sponsors 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 Group as a whole. The awards are expensed over the required service period and accruals are adjusted for changes to the expected final payout.

**t) Long term debt**

Debt issued by the 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.

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

**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 measure with sufficient reliability. A contingent liability is not recognised as a liability but is disclosed, unless the possibility is remote. A contingent liability, acquired under a business combination, is 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 balance sheet 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 Statements of Income'. Provisions for loan losses are recorded in 'provision for credit losses' in the 'Consolidated Statements of Income'.

**w) Share-based payments**

Amendments to IFRS 2 *Group Cash-settled Share-based Payment Transactions*: The amendments have clarified the approach to be taken in classifying group share based payment transactions as cash or equity settled in the subsidiaries accounts where the subsidiary has the obligation to settle the arrangement with the employee upon vesting. The Bank is now required to measure the services received and account for the transactions with its employees as a cash-settled share based payment transaction, as the Bank has the legal obligation to settle the arrangement. This includes the recognition of a liability, incurred and related to share-based payments, over the service life and in proportion to the service delivered at fair value. 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. The guidance resulted in a reclassification and remeasurement of the share-based payment related component from equity to liability. The amendments to IFRS 2 are effective for annual periods beginning on or after 1 January 2010 and CSi has adopted the guidance retrospectively for the annual financial statements as at 31 December 2010. As a result of the clarification, retained earnings in the Bank have been decreased on 31 December 2009 for the amount of US$119M (pre-tax) and a reduction in profit before tax on 31 December 2009 of US$159M. Further the adoption resulted in the recognition of a liability in the amount of US$230M on 31 December 2009.

**x) Interest income and expense**

Interest income and expense includes interest income and expense on the Group's financial instruments owned and financial instruments sold not yet purchased, short-term and long-term borrowings, reverse repurchase and repurchase agreements and securities borrowed and securities lending transactions. Interest income and expense does not include interest flows on the Group's trading derivatives (except for hedging relationships), trading instruments and financial instruments classified as at fair value through profit or loss. 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.

**y) Other liabilities**

***Financial Guarantees***

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

Financial guarantee contracts are initially recognised in the Consolidated Financial Statements at fair value on the date the guarantee was given, which is generally the fee received or receivable. Subsequent to initial recognition, the

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

Group's liabilities under such guarantees are measured at the higher of the initial fair value, less cumulative amortisation, and the best estimate for the expenditure required settling any financial obligation arising as of the reporting date. These estimates are determined based on experience with similar transactions and history of past losses, and management's determination of the best estimate.

Subsequent to initial recognition, the Group's liabilities under such guarantees are measured at the higher of the initial fair value, less cumulative amortisation, and the best estimate for the expenditure required settling any financial obligation arising as of the reporting date, when it is probable that the financial obligation will occur.

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

**z) Commissions and fees**

In accordance with IAS 18- *Revenue Recognition*, when the outcome of a transaction involving the rendering of services can be estimated reliably, revenue associated with the transaction is recognised by reference to the stage of completion of the transaction at the reporting date. The outcome of a transaction can be estimated reliably when all the following conditions are satisfied:
(a) The amount of revenue can be measured reliably;
(b) It is probable that the economic benefits associated with the transaction will flow to the entity;
(c) The stage of completion of the transaction at the reporting date can be measured reliably; and
(d) The costs incurred for the transaction and the costs to complete the transaction can be measured reliably.

Performance linked fees or fee components are recognised when the recognition criteria are fulfilled.

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

- income earned on the execution of a significant act (for example, fees arising from negotiating, or participating in the negotiation of, a transaction for a third party, such as fees from mergers and acquisitions and other corporate finance advisory services) is recognised as revenue when the act is completed;
- income earned from the provision of services (for example, portfolio management, customer trading and custody services ) is recognised as revenue as the services are provided and
- income which forms an integral part of the effective interest rate of a financial instrument is recognised as an adjustment to the effective interest rate and recorded in 'interest income'.

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

**aa) Operating leases**

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

***Subleases***
The subleases entered into by the Group are exclusively operating leases. Sublease payments received are recognised through the Consolidated Statements of Income.

**ab) 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 judgements and estimates, refer to Note - 2 Significant Accounting Policies, specifically the following:
i) Derivative financial instruments and hedging
j) Financial assets and liabilities at fair value through profit or loss
k) Recognition and derecognition
l) Other loans and receivables
n) Income tax
s) Compensation and benefits
u) Contingent liabilities
v) Provisions
w) Share based payments

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

**Fair Value**

Trading financial assets and liabilities, derivative instruments, financial assets and liabilities designated at fair value are recorded at fair value in the Consolidated Statements of Financial Position. Related changes in the fair value are recognised in the Consolidated Statements of Income.

The fair value of the majority of the Group's financial instruments is based on quoted prices in active markets (Level 1) or valuation techniques using observable inputs (Level 2). These instruments include government and agency securities, certain 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 Group holds financial instruments for which no prices are available and which have little or no observable inputs (Level 3). For these instruments, the determination of fair value requires subjective assessment and varying degrees of judgment depending on liquidity, concentration, pricing assumptions 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 high yield debt securities, distressed debt securities, certain OTC derivatives, certain collateralised debt obligations (CDO), certain asset-backed and mortgage-backed securities, non-traded equity securities, private equity and other long-term investments.

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 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 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

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

factors designed to reduce the 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 Group's credit standing is considered when measuring their fair value, based on current funded debt spreads. As of the end of 2010, 83.7% and 82.6% of our total assets and total liabilities, respectively, were measured at fair value (2009: 84.5% and 84.6%, respectively). Our Level 3 assets were US$20BN as of the end of 2010. As of the end of 2010, these assets comprised 3.5% of total assets (2009: 4.0%) and 4.1% of total assets measured at fair value (2009: 4.8%).

For further information on the fair value hierarchy and a description of our valuation techniques, refer to Note 34 – Financial Instruments.

CS group primarily uses London Interbank Offered Rate (LIBOR) curves as part of its valuation of derivative instruments to discount future expected cash flows.

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

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

**Special Purpose Entities**

As part of normal business, CSi Group engages in various transactions that include entities which are considered Special Purpose Entities ('SPEs'). 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.

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, CSi 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 CSi's capacity as the prime broker for entities qualifying as SPEs. CSi also enters into lending arrangements with SPEs for the purpose of financing client projects or the acquisition of assets. Further, CSi 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 CSi acts as structurer, manager, distributor, broker, market maker or liquidity provider.

A SPE is consolidated by CSi when the substance of the relationship between CSi and the SPE indicates that the SPE is controlled by CSi. 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 CSi according to its specific business needs so that CSi obtains benefits from the SPEs operation;

(b) In substance, CSi 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, CSi has delegated these decision-making powers;

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

Quantitative factors:

(c) In substance, CSi 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, CSi 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 CSi does not have the majority of the risks and rewards of ownership of the SPE.

SPEs may be sponsored by CSi, unrelated third parties or clients. Application of the accounting requirements for consolidation of SPEs initially and if certain events occur that require CSi to reassess whether consolidation is required, can require the exercise of significant management judgment.

**Contingencies and loss provisions**

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

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

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

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

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

**Retirement Benefit Costs**

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

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

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

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

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

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

**Taxes**

***Tax contingencies***

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

***Deferred tax valuation***

Deferred tax assets (DTA) and liabilities are recognised for the estimated future tax effects of operating loss carry-forwards and temporary differences between the carrying amounts of existing assets and liabilities and their respective tax bases at the balance sheet date. The realisation of DTA on temporary differences is dependent upon

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

the generation of taxable income in future accounting periods after those temporary differences become deductible. The realisation of DTA on net operating losses is dependent upon the generation of future taxable income. Management regularly evaluates whether deferred tax assets can be realised. Only if management considers it probable that a deferred tax asset will be realised is a corresponding DTA established without impairment.

In evaluating whether DTA can be realised, management considers both positive and negative evidence, including projected future taxable income, the scheduled reversal of deferred tax liabilities and tax planning strategies. This evaluation requires significant management judgement, primarily with respect to projected taxable income, also taking into account the history of recent losses of the 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 our estimate of future taxable profits and potential restructurings, could lead to changes in the amount of DTA that are realisable, or considered realisable, and would require a corresponding adjustment to the level of recognised DTA.

As part of its normal practice, management has conducted a detailed evaluation of the Bank's expected future taxable income. This evaluation has taken into account management's commitment to the integrated banking model and the importance of the Investment Banking segment within the integrated bank, as well as the changes in core businesses and the reduction in risk since 2008.

**Share-based payments**

The Group uses the liability method to account for its share-based compensation plans, which requires the 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 the Group's actual earnings performance to date and the Group's internal earnings projections over the remaining vesting period of the award. In determining the final liability, the Group also estimates the number of forfeitures over the life of the plan based on management's expectations for future periods, which also considers past experience.

**Transfer Pricing**

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

**4. Segmental Analysis**

Following the adoption of IFRS 8–*Operating Segments* the Bank has concluded that there are three reportable segments that are regularly reviewed by the Chief Operating Decision Maker ('CODM') when assessing the performance and allocation of resources. These segments are based on products and services offerings of the Group:

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

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

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

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

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

| **Revenues** | **2010 US$M** | **2009 US$M** |
|---|---|---|
| Fixed Income | 2,319 | 2,207 |
| Equities | 901 | 1,046 |
| Investment banking | 231 | 402 |
| **Total** | **3,451** | **3,655** |

The following table shows the Group's revenue from by managed region which generates the revenue:

| | **2010 US$M** | **2009 US$M** |
|---|---|---|
| **Revenues** | | |
| EMEA | 2,209 | 2,970 |
| Americas | 717 | 520 |
| Switzerland | 3 | 9 |
| Asia | 522 | 156 |
| **Total** | **3,451** | **3,655** |

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

**Group Assets:**

Non current assets, other than financial instruments, deferred tax assets, post employment benefit assets and rights arising under insurance contacts, consist of Property and Equipment, Investments and Intangible assets totalling US$607M (2009 :US$531M), all of which are located in EMEA.

**4. Segmental Analysis (continued)**

**Reconciliation of reportable segment revenues**

| **Reconciliation** | **2010 US$M** | **2009 US$M** |
|---|---|---|
| **IFRS statement of income** | | |
| Net interest income/(expense) | 84 | (136) |
| Net revenues | 2,160 | 1,480 |
| **Group revenues** | **2,244** | **1,344** |
| Total revenues for reportable segments – MIS | 3,451 | 3,655 |
| Revenue sharing agreement expense | (1,052) | (756) |
| Expansion of market credit risk adjustment[1] | - | (692) |
| Treasury funding | (436) | (529) |
| Other corporate items | (50) | (126) |
| Provisions for credit losses | 53 | (125) |
| CS group to Primary reporting reconciliations[2] | 278 | (83) |
| **Group Revenues** | **2,244** | **1,344** |

Notes:
1 Market credit risk provisions introduced against investment grade counterparties driven by market conditions
2 This is the difference between the monthly board summaries which are prepared on a US GAAP basis and the CSi accounts prepared in accordance with IFRS.

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

**5. Net Interest Income/(Expense)**

| **Group** | **2010 US$M** | **2009 US$M** |
|---|---|---|
| Loans and receivables | 671 | 820 |
| Securities purchased under resale agreements and securities borrowing transactions | 101 | 113 |
| Cash collateral paid on OTC derivatives transactions | 180 | 251 |
| Interest Income on cash, cash equivalents and loans | 166 | 357 |
| **Interest income** | **1,118** | **1,541** |
| Deposits | (1) | (5) |
| Short term borrowings | (233) | (859) |
| Securities sold under resale agreements and securities lending transactions | (59) | (78) |
| Long term debt | (557) | (416) |
| Cash collateral received on OTC derivatives transactions | (184) | (319) |
| **Interest expense** | **(1,034)** | **(1,677)** |
| **Net interest income/(expense)** | **84** | **(136)** |

Interest income accrued on impaired financial assets during the year was US$12M (2009: US$4.5M).

**6. Commissions and Fee Expense**

| **Group** | **2010 US$M** | **2009 US$M** |
|---|---|---|
| Lending business | 135 | 37 |
| Other customer services | (172) | (177) |
| **Net commission and fee expense** | **(37)** | **(140)** |
| Total commission and fee income | 147 | 44 |
| Total commission and fee expense | (184) | (184) |
| **Net commission and fee expense** | **(37)** | **(140)** |

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

| **Group** | **2010 US$M** | **2009 US$M** |
|---|---|---|
| Interest rate | 1,493 | 1,275 |
| Foreign exchange | 98 | 123 |
| Equity | 919 | 1,209 |
| Commodity | 244 | 209 |
| Credit | 372 | (332) |
| Other | 52 | 17 |
| **Total net gains from financial assets/liabilities at fair value through profit or loss** | **3,178** | **2,501** |

| Of which: | **2010 US$M** | **2009 US$M** |
|---|---|---|
| **Net gains/(losses) from financial assets/liabilities designated at fair value through profit or loss** | | |
| Securities purchased under resale agreements and securities borrowing transactions | 21 | (244) |
| Loans | 84 | 2,376 |
| Other financial assets designated at fair value through profit or loss | 95 | 40 |
| Deposits | 1 | (40) |
| Securities sold under repurchase agreements and securities lending transactions | 177 | (128) |
| Short term borrowings | (40) | (385) |
| Long term debt | 213 | (1,748) |
| Other financial liabilities designated at fair value through profit or loss | 215 | (211) |
| **Total net gains/(losses) from financial assets/liabilities designated at fair value through profit or loss** | **766** | **(340)** |

Included in this total is US$14M loss (2009: US$53M gain) of fair value changes of financial liabilities due to changes in the Group's own creditworthiness. The cumulative effect thereon is a gain of US$216M (2009: gain US$230M).

## 8. Revenue Sharing Agreements

Revenue sharing agreements expense of US$1,052M (2009: US$756M) principally relates to amounts allocated to CSi from other companies in the CS group.

## 9. Compensation and Benefits

| **Group** | **2010 US$M** | **2009 US$M (restated)[1]** |
|---|---|---|
| Salaries and variable compensations | 487 | 808 |
| Social security | 194 | 84 |
| Pensions | 28 | 26 |
| Other | 3 | 3 |
| **Compensation and benefits** | **712** | **921** |

[1] On 1 January 2010, the Group adopted amendments to IFRS 2-Group Cash-settled Share-based Payment Transactions. Comparative information has been restated accordingly (See Note 2).

Included in the above table are amounts relating to Directors' remuneration. Further details are disclosed in Note 29-Related Parties. Staff costs and staff numbers do not differ between Bank and Group.

## 10. General and Administrative Expenses

| Group | Note | 2010 US$M | 2009 US$M |
|---|---|---|---|
| Occupancy expenses | | 20 | 12 |
| IT and machinery | | 45 | 38 |
| Amortisation expenses | 20 | 87 | 60 |
| Depreciation expenses | 21 | 73 | 86 |
| Provisions | 24 | - | 1 |
| Litigation | 24 | 3 | 30 |
| Brokerage charges and clearing house fees | | 375 | 319 |
| Travel and entertainment | | 11 | 10 |
| Auditors' remuneration[1] | | 2 | 2 |
| Professional services | | 31 | 59 |
| Impairment of intangible assets | 20 | 3 | 3 |
| CSG Trademark | | 22 | - |
| Net overheads allocated from other CS group entities | | 496 | 172 |
| Other | | 33 | 14 |
| **Other expenses** | | **1,201** | **806** |

***[1]Auditors' remuneration***

Auditors' remuneration in relation to the statutory audit amounted to US$2M (2009: US$2M). The following fees were payable by the group to the auditor, KPMG Audit Plc.

| Fees Payable to KPMG | 2010 US$'000 | 2009 US$'000 |
|---|---|---|
| Audit Fees | 2,037 | 1,977 |
| Other services | 116 | 62 |
| **Total Audit Fees** | **2,153** | **2,039** |

## 11. Income Tax

| | Group 2010 US$M | Group 2009 US$M (Restated)[1] | Bank 2010 US$M | Bank 2009 US$M (Restated)[1] |
|---|---|---|---|---|
| **Current tax** | | | | |
| Current charge on profits for the period | (1) | (3) | (2) | - |
| Adjustments in respect of previous periods | (14) | (5) | (13) | (5) |
| **Total current tax charge** | **(15)** | **(8)** | **(15)** | **(5)** |
| **Deferred tax** | | | | |
| Origination and reversal of temporary differences | 100 | 188 | 100 | 188 |
| Current year tax losses | (236) | (67) | (236) | (67) |
| Adjustments in respect of previous periods | (4) | (16) | (4) | (16) |
| FX movement on losses carried forward | - | 245 | - | 245 |
| Effect of changes in tax rate or the imposition of new taxes | (73) | 5 | (73) | 5 |
| **Total deferred tax (charge)/credit** | **(213)** | **355** | **(213)** | **355** |
| **Income tax (charge)/credit** | **(228)** | **347** | **(228)** | **350** |

[1] On 1 January 2010, the Group adopted amendments to IFRS 2-Group Cash-settled Share-based Payment Transactions. Comparative information has been restated accordingly (See Note 2).

**11. Income Tax (continued)**

Further information about deferred income tax is presented in Note 12-Deferred Taxes. The income tax charge for the year can be reconciled to the profit per the statement of income as follows:

| | Group 2010 US$M | Group 2009 US$M (restated)[1] | Bank 2010 US$M | Bank 2009 US$M (restated)[1] |
|---|---|---|---|---|
| Profit/(Loss) before tax | 331 | (292) | 335 | (223) |
| Profit/(Loss) before tax multiplied by the UK statutory rate of corporation tax at the rate of 28% (2009: 28%) | (93) | 81 | (94) | 63 |
| Other permanent differences | (43) | 43 | (42) | 58 |
| Effect of different tax rates of operations/subsidiaries operating in other jurisdictions | (11) | (2) | (11) | 5 |
| Adjustments to current tax in respect of previous periods | (13) | (6) | (13) | (6) |
| Adjustments to deferred tax in respect of previous periods | (4) | (16) | (4) | (16) |
| Effect on deferred tax resulting from changes to tax rates | (64) | - | (64) | - |
| FX movement on losses carried forward | - | 247 | - | 246 |
| **Income tax (charge)/credit** | **(228)** | **347** | **(228)** | **350** |

**12. Deferred Taxes**

Effective deferred taxes are calculated on all temporary differences under the liability method using an effective tax rate of 28% (2009: 28%). The UK corporation tax rate was reduced from 28% to 27% from 1 April 2011. The deferred tax asset, as at December 2010, has been adjusted to reflect this.

In the budget announcement of 23 March 2011, the UK government announced its intention to further reduce the corporation tax rate by 1% with effect from 1 April 2011. The impact of this change when substantially enacted will be to decrease the deferred tax asset recorded as at 31 December by US$66M.

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

| | Group 2010 US$M | Group 2009 US$M (restated)[1] | Bank 2010 US$M | Bank 2009 US$M (restated)[1] |
|---|---|---|---|---|
| Deferred tax assets | 1,935 | 2,148 | 1,935 | 2,148 |
| **Net position** | **1,935** | **2,148** | **1,935** | **2,148** |
| | | | | |
| Balance at 1 January | 2,148 | 1,822 | 2,148 | 1,793 |
| Transfers | - | (29) | - | - |
| (Charge)/Credit to income for the year | (213) | 355 | (213) | 355 |
| **At end of the year** | **1,935** | **2,148** | **1,935** | **2,148** |

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

**Deferred tax assets**

| | Group 2010 US$M | Group 2009 US$M (restated)[1] | Bank 2010 US$M | Bank 2009 US$M (restated)[1] |
|---|---|---|---|---|
| Derivative financial instruments | 24 | 30 | 24 | 30 |
| Share-based compensation | 104 | 109 | 104 | 109 |
| Decelerated tax depreciation | 136 | 120 | 136 | 120 |
| Other provisions | 13 | 15 | 13 | 15 |
| Unpaid interest | 244 | 153 | 244 | 153 |
| Deferred tax impact on losses carried forward | 1,414 | 1,721 | 1,414 | 1,721 |
| **At end of the year** | **1,935** | **2,148** | **1,935** | **2,148** |

**12. Deferred Taxes (continued)**

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

| | Group 2010 US$M | Group 2009 US$M (restated)[1] | Bank 2010 US$M | Bank 2009 US$M (restated)[1] |
|---|---|---|---|---|
| Derivative financial instruments | (6) | (5) | (6) | (5) |
| Share-based compensation | (4) | 54 | (4) | 54 |
| Decelerated tax depreciation | 16 | 39 | 16 | 39 |
| Other provisions | (2) | 8 | (2) | 8 |
| Unpaid interest | 90 | 124 | 90 | 124 |
| Deferred tax impact on losses carried forward | (307) | 135 | (307) | 135 |
| **Total deferred tax (charge)/credit in the statement of income** | **(213)** | **355** | **(213)** | **355** |

[1] On 1 January 2010, the Group adopted amendments to IFRS 2-Group Cash-settled Share-based Payment Transactions. Comparative information has been restated accordingly (See Note 2).

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

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

As part of its normal practice, management has conducted a detailed evaluation of the bank's expected future taxable income. This evaluation has taken into account management's commitment to the integrated banking model and the importance of the Investment Banking segment within the integrated bank, as well as the changes in core businesses and the reduction in risk since 2008.

As a consequence of this evaluation, it was considered that the DTA could be recognised in full. If strategies and business plans will significantly deviate in the future from current management assumptions, the current level of deferred tax assets may need to be adjusted, if full recovery of the DTA balance is no longer probable.

**13. Securities Borrowed, Lent and Subject to Resale Agreements**

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

| | Group 2010 US$M | Group 2009 US$M | Bank 2010 US$M | Bank 2009 US$M |
|---|---|---|---|---|
| Securities purchased under resale agreements | 10,407 | 6,039 | 10,407 | 6,039 |
| Deposits paid for securities borrowed | 5,725 | 13,298 | 5,725 | 13,298 |
| **Total** | **16,132** | **19,337** | **16,132** | **19,337** |

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

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

| | Group 2010 US$M | Group 2009 US$M | Bank 2010 US$M | Bank 2009 US$M |
|---|---|---|---|---|
| Securities sold under resale agreements | 921 | 296 | 921 | 296 |
| Deposits received for securities lent | 6,964 | 3,824 | 6,964 | 3,824 |
| **Total** | **7,885** | **4,120** | **7,885** | **4,120** |
| Other liabilities (Refer to Note 17) | 538 | 1,268 | 538 | 1,274 |
| **Total** | **8,423** | **5,388** | **8,423** | **5,394** |

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

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

Retained assets relate to securities lending agreements and repurchase agreements. The resulting credit exposures are controlled by daily monitoring and collateralisation of the positions. Other collateralised securities trading includes transactions in which the Group has transferred assets but continues to have involvement in the transferred assets, for example through providing a guarantee, writing put options, acquiring call options, or entering into a total return swap or other type of swap linked to the performance of the asset. If control is retained due to these types of associated transactions, the Group continues to recognise the transferred asset in its entirety or to the extent of its continuing involvement.

In the event of counterparty default, the repurchase agreement or securities lending agreement provides the Group with the right to liquidate the collateral held. In the 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 31 December 2010.

Included in 'Other liabilities' above are amounts received in respect of non fair value elected transferred assets which do not meet the de-recognition criteria in accordance with IAS 39. For transferred but not derecognised financial assets, CSi's only exposure is to the volatility of the SPEs underlying assets for the tranche/portion of the notes/assets which the Bank owns.

## 14. Trading Financial Assets and Liabilities at Fair Value Through Profit or Loss and Financial Assets and Liabilities Designated at Fair Value Through Profit or Loss

| | Group 2010 US$M | Group 2009 US$M | Bank 2010 US$M | Bank 2009 US$M |
|---|---|---|---|---|
| **Trading financial assets at fair value through profit or loss** | | | | |
| Debt securities | 25,975 | 26,515 | 24,364 | 25,485 |
| Equity securities | 19,749 | 16,607 | 20,822 | 16,779 |
| Derivative instruments | 406,713 | 409,873 | 407,299 | 410,736 |
| Other | 7,453 | 6,525 | 8,344 | 6,560 |
| **Trading financial assets at fair value through profit or loss** | **459,890** | **459,520** | **460,829** | **459,560** |
| | | | | |
| **Financial assets designated at fair value through profit or loss** | | | | |
| Debt securities | 4,518 | 2,931 | 4,518 | 2,931 |
| Loans | 12,205 | 15,812 | 12,205 | 15,812 |
| Securities purchased under resale agreements & securities borrowing transactions | 7,200 | 10,938 | 8,997 | 11,181 |
| Other | 556 | - | 556 | - |
| **Total financial assets designated at fair value through profit or loss** | **24,479** | **29,681** | **26,276** | **29,924** |

Debt instruments primarily consist of corporate bonds and also include government securities.

Trading financial assets and financial assets designated at fair value through profit or loss include US$23,895M (2009: US$24,692M) 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.

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

For loans designated at fair value through profit or loss, the maximum fair value exposure to credit risk as at 31 December 2010 was US$12.2BN (2009: US$15.8BN). To mitigate this credit risk, securities are held as collateral, and credit default swaps with a notional value of US$3.1BN (2009: US$5.7BN) have been transacted to transfer this risk into the capital markets.

The fair value movement attributable to counterparty credit on loans designated at fair value through profit or loss is calculated using credit spreads applicable to specific points in time. All other risk variables are held constant and the credit spreads are moved based on current market conditions. During the year ended 31 December 2010, this fair value movement was an increase of US$335M (2009: increase US$1BN). The cumulative effect thereon at the year-end was a decrease of US$1.6BN (2009: decrease US$1.9BN). The corresponding increase in fair value of the swaps and securities in place to mitigate this risk was US$123M (2009: decrease US$444M). The cumulative effect thereon at the year end was an increase of US$1.9BN (2009: increase US$1.8BN).

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

**14. Trading Financial Assets and Liabilities at Fair Value Through Profit or Loss and Financial Assets and Liabilities Designated at Fair Value Through Profit or Loss (continued)**

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

| | Group 2010 US$M | Group 2009 US$M | Bank 2010 US$M | Bank 2009 US$M |
|---|---|---|---|---|
| **Trading financial liabilities at fair value through profit or loss** | | | | |
| Short positions | 16,386 | 17,585 | 16,386 | 17,585 |
| Derivative instruments | 418,193 | 420,068 | 418,676 | 420,401 |
| **Trading financial liabilities at fair value through profit or loss** | **434,579** | **437,653** | **435,062** | **437,986** |
| | | | | |
| **Financial liabilities designated at fair value through profit or loss** | | | | |
| Subordinated debt | 467 | 531 | 467 | 531 |
| Structured notes | 18,718 | 24,586 | 18,050 | 24,242 |
| Deposits | 3,167 | 1,927 | 4,550 | 1,927 |
| Securities sold under repurchase agreements and securities lending transactions | 10,031 | 14,387 | 10,031 | 14,387 |
| Other | 1,759 | 1,640 | 1,759 | 1,640 |
| **Total financial liabilities designated at fair value through profit or loss** | **34,142** | **43,071** | **34,857** | **42,727** |

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

Of the other financial liabilities designated at fair value through profit or loss, subordinated debt, bonds and repurchase agreements were primarily elected to alleviate an accounting mismatch, while structured notes and deposits were mainly elected because they are managed on a fair value basis. The carrying amount is US$940M lower than the principal amount that the Group would be contractually required to pay to the holder of these financial liabilities at maturity (2009: US$1.7BN lower).

**15. Other Loans and Receivables**

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

| | Group 2010 US$M | Group 2009 US$M | Bank 2010 US$M | Bank 2009 US$M |
|---|---|---|---|---|
| **Loans** | | | | |
| Real estate | 154 | 312 | 154 | 312 |
| Commercial and industrial loans | 1,601 | 2,263 | 1,601 | 2,263 |
| Financial institutions | 3,863 | 3,804 | 3,863 | 3,804 |
| **Gross Loans** | **5,618** | **6,379** | **5,618** | **6,379** |
| of which domestic | 586 | 462 | 586 | 462 |
| of which foreign | 5,032 | 5,917 | 5,032 | 5,917 |
| Net (unearned income)/deferred expenses | (30) | (22) | (30) | (22) |
| Allowance for loan losses | (69) | (123) | (69) | (123) |
| **Net Loans** | **5,519** | **6,234** | **5,519** | **6,234** |
| **Gross impaired loans** | **228** | **268** | **228** | **268** |
| of which loans with an individual allowance | 220 | 246 | 220 | 246 |
| of which loans without an individual allowance | 8 | 22 | 8 | 22 |

Other loans and receivables due within one year for the Group, amounts to US$2,531M (2009: US$1,656M) and for the Bank amounts to US$2,531M (2009: US$1,656M).

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

| **Group and Bank** | **2010 US$M** | **2009 US$M** |
|---|---|---|
| Allowance for loan losses | 53 | (142) |
| Provisions for off-balance sheet exposure | - | 17 |
| **Provision for Credit Losses** | **53** | **(125)** |

**15. Other Loans and Receivables (continued)**

| Group and Bank | Banks US$M | Customers US$M | Total US$M |
|---|---|---|---|
| Balance at 1 January 2010 | (5) | (118) | (123) |
| Additional allowances for impairment losses | (3) | (6) | (9) |
| Reversal of allowances for impairment losses | 2 | 60 | 62 |
| Movement recognised in Consolidated Statements of Income | (1) | 54 | 53 |
| Net Write backs | | 1 | 1 |
| **Balance at 31 December 2010** | **(6)** | **(63)** | **(69)** |
| Balance at 1 January 2009 | (10) | (265) | (275) |
| Additional allowances for impairment losses | (1) | (233) | (234) |
| Reversal of allowances for impairment losses | 6 | 86 | 92 |
| Movement recognised in Consolidated Statements of Income | 5 | (147) | (142) |
| Net Write backs | | 294 | 294 |
| **Balance at 31 December 2009** | **(5)** | **(118)** | **(123)** |

**16. Investment Property**

The Group consolidates a number of SPEs which hold property even though we have not enforced our security and remain a lender to the SPE rather than the legal owner of the property. The Group accounts for these properties which are consolidated in the Group accounts in the same manner as those which we now own following enforcement of our security. The fair value of this property is $652M (2009:$34M)

**17. Other Assets and Other Liabilities**

| | Group 2010 US$M | Group 2009 US$M | Bank 2010 US$M | Bank 2009 US$M |
|---|---|---|---|---|
| **Other assets** | | | | |
| Derivative instruments used for hedging (refer to Note 31) | - | 33 | - | 33 |
| Brokerage receivables (refer to Note 18) | 3,337 | 5,108 | 3,337 | 5,108 |
| Interest and fees receivable | 202 | 125 | 1,726 | 1,600 |
| Cash collateral on derivative instruments | | | | |
| - Banks | 21,972 | 16,141 | 21,972 | 16,141 |
| - Customers | 22,018 | 20,153 | 22,018 | 20,153 |
| Other | 282 | 296 | 281 | 286 |
| **Total other assets** | **47,811** | **41,856** | **49,334** | **43,321** |

Other assets, except derivative instruments used for hedging, are mainly due within one year.

**17. Other Assets and Other Liabilities (continued)**

| | Group 2010 US$M | Group 2009 US$M (restated)[1] | Bank 2010 US$M | Bank 2009 US$M (restated)[1] |
|---|---|---|---|---|
| **Other liabilities** | | | | |
| Derivative instruments used for hedging | - | 6 | - | 6 |
| Brokerage payables (refer to Note 18) | 2,190 | 5,120 | 2,191 | 4,902 |
| Interest and fees payable | 1,148 | 1,054 | 2,474 | 2,336 |
| Cash collateral on derivative instruments | | | | |
| - Banks | 26,823 | 22,973 | 26,823 | 22,973 |
| - Customers | 7,285 | 8,749 | 7,285 | 8,749 |
| Failed sales | 538 | 1,268 | 538 | 1,274 |
| Share-based compensation liability[1] | 147 | 230 | 144 | 230 |
| Other | 565 | 799 | 544 | 772 |
| **Total other liabilities** | **38,696** | **40,199** | **39,999** | **41,242** |

[1] On 1 January 2010, the Group adopted amendments to IFRS 2-Group Cash-settled Share-based Payment Transactions. Comparative information has been restated accordingly (See Note 2).

**18. Brokerage Receivables and Brokerage Payables**

The Group recognises receivables and payables from transactions in financial instruments purchased from and sold to customers, banks, brokers and dealers. The 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 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 generally considered to be reduced. The Group requires customers to maintain margin collateral in compliance with applicable regulatory and internal guidelines.

| | Group 2010 US$M | Group 2009 US$M | Bank 2010 US$M | Bank 2009 US$M |
|---|---|---|---|---|
| Due from customers | 1,003 | 870 | 1,003 | 870 |
| Due from banks, brokers and dealers | 2,334 | 4,238 | 2,334 | 4,238 |
| **Total brokerage receivables** | **3,337** | **5,108** | **3,337** | **5,108** |

| | Group 2010 US$M | Group 2009 US$M | Bank 2010 US$M | Bank 2009 US$M |
|---|---|---|---|---|
| Due to customers | 110 | 64 | 111 | 65 |
| Due to banks, brokers and dealers | 2,080 | 5,056 | 2,080 | 4,837 |
| **Total brokerage payables** | **2,190** | **5,120** | **2,191** | **4,902** |

During the current reporting period there were no defaults or breaches in respect of third party loan payables.

Included within payables are liabilities identified as client money. The Group and Bank held US$207M as at 31 December 2010 (2009:US$434M). This cash is recorded under cash and due from banks and other assets.

**19. Significant Subsidiaries and Equity Method Investments**

| Bank | 2010 US$M | 2009 US$M |
|---|---|---|
| Investments in Subsidiary Undertakings | 27 | 27 |

The subsidiary undertakings, direct and indirect, of the Bank at 31 December 2010, all of which are consolidated in these financial statements, are as follows:

| Subsidiary | Country of Incorporation | % Equity Held |
|---|---|---|
| **Direct holdings:** | | |
| Credit Suisse First Boston International Warrants Limited (in liquidation) | Guernsey | 100% |
| Credit Suisse First Boston International (USA), Inc. | United States | 100% |
| CSFB International Trading, L.L.C. | United States | 100% |
| Credit Suisse First Boston International (Holding) B.V. | Netherlands | 100% |

Credit Suisse First Boston International Warrants Limited commenced members' voluntary liquidation on 2 November 2005 and remains in liquidation.

On 25 August 2010, Credit Suisse First Boston International (Australia) Limited was liquidated and deregistered.

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

**Significant equity method investments:**

As of the end of 31 December 2010, the following equity method investment was significant:

| Equity interest in % | Company Name | Domicile | Currency | Carrying value of investment USD$M |
|---|---|---|---|---|
| 44.90% | Brevan Howard Strategic Opportunities Fund Limited | Cayman Islands | USD | 647 |

**Movement in equity method investments**

| | 2010 US$M |
|---|---|
| **Balance at beginning of period** | |
| Change in scope of consolidation | - |
| Income | 18 |
| Dividends paid | - |
| Additions | - |
| Disposals | - |
| Reclassifications | 629 |
| Impairment losses | - |
| Foreign currency translation impact | - |
| **Balance at the end of period** | **647** |

The associate investment was previously included within trading assets, however due to an increase in CSi note holdings and significant influence over the associate, this has been reclassified to equity accounted, and the investment is recorded at fair value.

**20. Intangible Assets**

**Group and Bank**

| | Internally Developed Software 2010 US$M | Internally Developed Software 2009 US$M |
|---|---|---|
| **Cost:** | | |
| Cost as at 1 January | 556 | 436 |
| Additions | 159 | 141 |
| Disposals | (6) | (21) |
| **Cost as at 31 December** | **709** | **556** |
| | | |
| **Accumulated amortisation:** | | |
| Accumulated amortisation as at 1 January | (300) | (252) |
| Amortisation for the year | (87) | (60) |
| Impairment | (3) | (3) |
| Disposals | 6 | 15 |
| Accumulated amortisation as at 31 December | (384) | (300) |
| | | |
| **Net book value as at 1 January** | **256** | **184** |
| **Net book value as at 31 December** | **325** | **256** |

**21. Property and Equipment**

**Group and Bank**
**2010**

| | Leasehold Improvements US$M | Computer Equipment US$M | Office Equipment US$M | Total US$M |
|---|---|---|---|---|
| **Cost:** | | | | |
| Cost as at 1 January 2010 | 473 | 567 | 98 | 1,138 |
| Additions | 31 | 37 | 13 | 81 |
| Disposals | (1) | - | - | (1) |
| Cost as at 31 December 2010 | 503 | 604 | 111 | 1,218 |
| | | | | |
| **Accumulated depreciation:** | | | | |
| Accumulated depreciation as at 1 January 2010 | (293) | (489) | (81) | (863) |
| Charge for the year | (22) | (44) | (7) | (73) |
| Accumulated depreciation as at 31 December 2010 | (315) | (533) | (88) | (936) |
| | | | | |
| **Net book value as at1 January 2010** | **180** | **78** | **17** | **275** |
| **Net book value as at 31 December 2010** | **188** | **71** | **23** | **282** |

**21. Property and Equipment (continued)**

| **Group and Bank 2009** | **Leasehold Land and Buildings US$M** | **Leasehold Improvements US$M** | **Computer Equipment US$M** | **Office Equipment US$M** | **Total US$M** |
|---|---|---|---|---|---|
| **Cost:** | | | | | |
| Cost as at 1 January 2009 | 78 | 538 | 536 | 96 | 1,248 |
| Additions | | 14 | 32 | 3 | 49 |
| Disposals | (78) | (79) | (1) | (1) | (159) |
| Cost as at 31 December 2009 | - | 473 | 567 | 98 | 1,138 |
| **Accumulated depreciation:** | | | | | |
| Accumulated depreciation as at 1 January 2009 | (16) | (334) | (448) | (75) | (873) |
| Charge for the year | (1) | (38) | (41) | (6) | (86) |
| Disposals | 17 | 79 | - | - | 96 |
| Accumulated depreciation as at 31 December 2009 | - | (293) | (489) | (81) | (863) |
| **Net book value as at 1 January 2009** | **62** | **204** | **88** | **21** | **375** |
| **Net book value as at 31 December 2009** | **-** | **180** | **78** | **17** | **275** |

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

No interest has been capitalised within property, plant and equipment (2009: US$Nil).

**22. Deposits**

| | **Group 2010 US$M** | **Group 2009 US$M** | **Bank 2010 US$M** | **Bank 2009 US$M** |
|---|---|---|---|---|
| Non-interest bearing demand deposits | 1,310 | 971 | 1,310 | 971 |
| Interest-bearing demand deposits | 1,414 | 1,256 | 1,412 | 1,220 |
| Time deposits | 9 | 4 | 9 | 4 |
| **Total deposits** | **2,733** | **2,231** | **2,731** | **2,195** |
| Of which due to banks | 2,498 | 1,969 | 2,496 | 1,933 |
| Of which due to customers | 235 | 262 | 235 | 262 |

**23. Short Term Borrowings**

| | **Group 2010 US$M** | **Group 2009 US$M** | **Bank 2010 US$M** | **Bank 2009 US$M** |
|---|---|---|---|---|
| Short term borrowings: | | | | |
| from banks | 18,996 | 28,030 | 18,996 | 28,029 |
| from customers | 28 | 8 | 266 | 271 |
| **Total short term borrowings** | **19,024** | **28,038** | **19,262** | **28,300** |

**24. Provisions**

| **Group and Bank** | **Property US$M** | **Litigation US$M** | **Total 2010 US$M** |
|---|---|---|---|
| Balance at 1 January 2010 | 6 | 34 | 40 |
| Charges during the year | - | 3 | 3 |
| Utilised during the year | (3) | (22) | (25) |
| **Balance at the end of the year** | **3** | **15** | **18** |

**24. Provisions (continued)**

| **Group and Bank** | **Property US$M** | **Litigation US$M** | **Total 2009 US$M** |
|---|---|---|---|
| Balance at 1 January 2009 | 5 | 9 | 14 |
| Charges during the year | 1 | 30 | 31 |
| Utilised during the year | - | (5) | (5) |
| **Balance at the end of the year** | **6** | **34** | **40** |

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

The 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 Group reviews it's judicial, regulatory and arbitration proceedings each quarter to determine the adequacy of its litigation provisions and may increase or release provisions based on management's judgment and the 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.

**25. Long Term Debt**

| | **Group 2010 US$M** | **Group 2009 US$M** | **Bank 2010 US$M** | **Bank 2009 US$M** |
|---|---|---|---|---|
| Senior debt | 19,569 | 2,238 | 19,550 | 2,238 |
| Subordinated debt | 10,860 | 10,550 | 10,860 | 10,550 |
| **Total long term debt** | **30,429** | **12,788** | **30,410** | **12,788** |

During 2010 senior debt of US$10.0BN and EUR 5.3BN (US$7.08BN) was provided by Credit Suisse London Branch in response to the UK liquidity requirements required by the FSA as set out in policy statement (PS) 09/16.

Subordinated loan capital is repayable at par on maturity, but some is repayable prior to maturity at the option of the borrower, generally subject to prior notification to the FSA, and in certain cases at a premium over par. Interest rates on the floating rate loan capital are related to interbank offered rates. On the remaining subordinated loan capital, interest is payable at fixed rates up to 8.25 per cent.

**26. Called-up Share Capital and Share Premium**

| **Group and Bank**<br>**Authorised:** | **2010**<br>**US$** | **2009**<br>**US$** |
|---|---|---|
| Ordinary voting shares of US$1 each | 125 | 125 |
| Participating non-voting shares of US$1 each | 7,224,999,375 | 7,224,999,375 |
| Class A Participating non-voting shares of US$1 each | 500 | 500 |
| Preference Shares of US$25,000,000 each | 275,000,000 | 275,000,000 |
| Class A Preference Shares of US$1 each | 250,000,000 | 250,000,000 |
| Class B Preference Shares of US$1 each | 600,000,000 | 600,000,000 |
| Class C Preference Shares of US$1 each | 800,000,000 | 800,000,000 |
| Class D Preference Shares of US$1 each | 600,000,000 | 600,000,000 |
| Class E Preference Shares of US$1 each | 700,000,000 | 700,000,000 |
| Class F Preference Shares of US$1 each | 750,000,000 | 750,000,000 |
| Class G Preference Shares of US$1 each | 800,000,000 | 800,000,000 |
| Class H Preference Shares of US$1 each | 700,000,000 | 700,000,000 |
| Class I Preference Shares of US$1 each | 1,500,000,000 | 1,500,000,000 |
| Class J Preference Shares of US$1 each | 1,400,000,000 | 1,400,000,000 |
| Class K Preference Shares of US$1 each | 200,000,000 | 200,000,000 |
| | **15,800,000,000** | **15,800,000,000** |

**26. Called-up Share Capital and Share Premium (continued)**

**Group and Bank**

| | **2010** | **2009** |
|---|---:|---:|
| **Allotted, called-up and fully paid:** | **US$** | **US$** |
| Ordinary voting shares of US$1 each | 125 | 125 |
| Participating non-voting shares of US$1 each | 4,389,568,088 | 3,889,568,088 |
| Class A Participating non-voting shares of US$1 each | 200 | 200 |
| Class A Preference Shares of US$1 each | 250,000,000 | 250,000,000 |
| Class B Preference Shares of US$1 each | - | - |
| Class C Preference Shares of US$1 each | 350,000,000 | 350,000,000 |
| Class D Preference Shares of US$1 each | 300,000,000 | 300,000,000 |
| Class E Preference Shares of US$1 each | 535,000,000 | 535,000,000 |
| Class H Preference Shares of US$1 each | 700,000,000 | 700,000,000 |
| Class I Preference Shares of US$1 each | 1,500,000,000 | 1,500,000,000 |
| Class J Preference Shares of US$1 each | 1,400,000,000 | 1,400,000,000 |
| Class K Preference Shares of US$1 each | 200,000,000 | 200,000,000 |
| | **9,624,568,413** | **9,124,568,413** |

**Group and Bank**

| | **2010** | **2009** |
|---|---:|---:|
| **Share premium:** | **US$** | **US$** |
| Balance at 1 January | 4,868,106,287 | 4,125,682,045 |
| Issuance of Participating non-voting shares | - | 742,424,242 |
| Capital restructuring | (3,852,000,000) | - |
| Balance at the end of the year | **1,016,106,287** | **4,868,106,287** |

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

- On 20 January 2009, the total authorised share capital of the Bank was increased from US$14,100,000,000 to US$15,800,000,000 by the creation of a further 1,500,000,000 participating shares of which 757,575,758 shares were issued at a share premium of 742,424,242 to Credit Suisse (International) Holding AG ('IHAG'), and the creation of a new class of shares being 200,000,000 Class K Preference Shares of US$1 each, all of which were issued to Credit Suisse Investments (UK).
- Further, on 29 October 2010, participating non-voting issued share capital was further increased from US$3,889,568,088 to US$4,389,568,088 by issue of 500,000,000 shares of US$1 allotted and issued in cash at par as follows:

| **Allottee** | **No of Shares** |
|---|---:|
| Credit Suisse Group AG | 32,292,000 |
| Credit Suisse AG | 401,836,164 |
| Credit Suisse Investments (UK) | 65,871,836 |

- On 16 December 2010, the Bank passed a special resolution to undergo a capital restructuring in accordance with the Companies Act 2006. The purpose of the capital restructuring was to simplify the capital structure by reducing and cancelling US$3.852BN standing to the credit of the share premium account of the Bank.

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

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

The Class A Participating Shares are cumulative shares. The holders of Class A Participating Shares have the right to receive notice of and to attend all general meetings of the company, but have voting rights only in respect of resolutions, modifying, varying or abrogating the rights or privileges of the holders of the Class A Participating Shares. Holders of the shares are entitled to dividends as recommended by the Directors, but are not entitled to any right of participation on a return of capital in excess of the par value of the issue price of the shares plus any unpaid dividends.

**26. Called-up Share Capital and Share Premium (continued)**

The Bank has the right to redeem the issued Class A Participating Shares in whole but not part, by giving the holders of the shares not less than 28 days' prior notice in writing of the redemption date. The amount payable on redemption shall be the nominal amount paid up on each such Class A Participating Share together with all arrears of the Class A participating dividend, calculated down to and including the redemption date.

The holders of Preference Shares have the right to receive notice of and to attend all general meetings of the company, but only have voting rights in respect of resolutions modifying, varying or abrogating the rights or privileges of the holders of the Preference Shares.

The Bank has the right to redeem the issued Class A Participating Shares in whole but not part, by giving the holders of the shares not less than 28 days' prior notice in writing of the redemption date. The amount payable on redemption shall be the nominal amount paid up on each Preference Share, together with all arrears and accruals of the preferential dividend thereon, calculated down to and including the date of redemption, irrespective of whether such dividend has been declared or not.

The Class A Preference Shares are non-cumulative, non-redeemable shares. The holders of the shares have the right to receive notice of and to attend all general meetings of the company, but have voting rights only in respect of resolutions modifying, varying or abrogating the rights or privileges of the holders of the Class A Preference Shares. Holders of the shares are entitled only to dividends as recommended by the Directors and are not entitled to any right of participation on a return of capital in excess of the issue price of the shares. The Class A Preference shares have priority over all other classes of share, other than the Preference Shares, which retain absolute priority as to the right of participation on a return of capital.

The Class B, C, D, E, H, I J and K Preference Shares are non–cumulative shares. The holders of each of these classes of shares have the right to receive notice of and to attend all general meetings of the company, but have voting rights only in respect of resolutions modifying, varying or abrogating the rights or privileges of the holders of shares of that particular class. Holders of the shares receive a fixed preferential dividend, which may be nil at the Directors' discretion, at the following annual rates:

| | |
|---|---|
| Class B Preference shares | 6.43% |
| Class C Preference shares | 6.299% |
| Class D Preference shares | 7% |
| Class E Preference shares | 6.8195% |
| Class H Preference shares | 7.625% |
| Class I Preference shares | 7.85% |
| Class J Preference shares | 7.53% |
| Class K Preference shares | 14.918% |

Dividends are paid annually on 30 April ('the fixed dividend date'). Holders of the shares are not entitled to any right of participation on a return of capital in excess of the issue price of the shares. These shares have priority over all other classes of shares (except for equal priority with each other, and other than the Preference Shares and Class A Preference Shares, which retain absolute priority), as to the right of participation on a return of capital.

The Bank has the right, subject to the Companies Act 2006, to redeem these issued shares in whole or any part, on any fixed dividend date as from the following dates:

| | |
|---|---|
| Class B Preference shares | 27 February 2009 |
| Class C Preference shares | 8 November 2009 |
| Class D Preference shares | 17 November 2010 |
| Class E Preference shares | 15 March 2011 |
| Class H Preference shares | 10 August 2012 |
| Class I Preference shares | 16 November 2012 |
| Class J Preference shares | 29 April 2013 |
| Class K Preference shares | 21 January 2014 |

The Bank has to give the holders of the shares not less than 28 days' prior notice in writing of the redemption date. The amount payable on redemption shall be the amount paid up thereon together with a sum equal to all arrears and accruals (if any) of the preferential dividends, to be calculated up to and including the redemption date.

**27. Retirement Benefit Obligations**

The following disclosures contain the balances for the entire defined benefit plan sponsored by CSSEL, of which the Bank is one of many participants, who are all related parties under common control. The Bank accounts for its share of the plan using defined contribution accounting. During 2010 the Bank expensed US$14M (2009: US$19M) in respect of its contributions to the UK defined benefit scheme.

The following table shows the changes in the defined benefit obligation and the fair value of plan assets during 2010 and 2009 of the Credit Suisse UK Defined Benefit pension plan, and the amounts are included in the Consolidated Financial Statements of CSSEL retirement benefit obligations as at 31 December 2010 and 2009 respectively:

| | **Defined benefit pension plans** | |
|---|---|---|
| | **2010** | **2009** |
| | **US$M** | **US$M** |
| Defined benefit obligation – 1 January | 1,180 | 886 |
| Current service cost | 5 | 4 |
| Interest cost | 69 | 60 |
| Actuarial losses – assumptions | 75 | 197 |
| Actuarial losses/(gains) – experience | 25 | (59) |
| Benefit payments | (12) | (16) |
| Exchange rate (gains)/losses | (45) | 108 |
| **Defined benefit obligation – 31 December** | **1,297** | **1,180** |
| | | |
| Fair value of plan assets – 1 January | 1,186 | 1,015 |
| Actual return on plan assets | 124 | (69) |
| Contributions | 152 | 140 |
| Benefit payments | (12) | (16) |
| Exchange rate losses | (46) | 116 |
| **Fair value of plan assets – 31 December** | **1,404** | **1,186** |

During July 2010, following a UK Government announcement to use Consumer Price Index as the measure of price inflation, where appropriate, CSSEL changed the inflation assumption in calculating the Defined Benefit Obligation from the Retail Price Index to the Consumer Price Index. The impact of this change was a decrease in the Defined Benefit Obligation of US$71M which has been reported as part of the unrecognised gains/losses. CSSEL has agreed the valuation and funding of the UK defined benefit pension plan with the Pension Fund Trustees as at 31 December 2008. Lump sum contributions were paid by the Company of GBP2M in April 2009, GBP80M in December 2009 and GBP93M in December 2010. Additional contributions are due to be paid as follows:

GBP50M by 31 January 2012, GBP51M by 31 January 2013, GBP3M payable by 31 January each year from 2012 to 2018 and finally GBP3M by 31 December 2018. In addition to these amounts, contributions will be paid to cover administrative expenses, administration rebates and death in service pensions.

**Assumptions**

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

| | **2010** | **2009** |
|---|---|---|
| **31 December** | **%** | **%** |
| **Benefit obligations** | | |
| Discount rate | 5.60 | 6.00 |
| Retail Price Inflation | 3.45 | 3.50 |
| Consumer Price Inflation | 2.75 | - |
| Pension increases * | 3.30 | 3.40 |
| Salary increases | 4.70 | 4.75 |
| **Net periodic pension cost** | | |
| Discount rate | 6.00 | 6.25 |
| Salary increases | 4.70 | 4.10 |
| Expected long term rate of return on plan assets | 7.55 | 7.75 |

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

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

**Mortality Assumptions**

The life expectancy assumptions have been amended in 2010 in order to consider improvement in mortality.

The assumptions for life expectancy for the 2010 benefit obligation pursuant to IAS 19 are 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 post-retirement mortality assumptions are as follows:

| | 2010 | 2009 |
|---|---|---|
| Life expectancy at age 60 for current pensioners aged 60 (years) | | |
| Males | 29 | 28 |
| Females | 31 | 30 |
| Life expectancy at age 60 for future pensioners currently aged 40 (years) | | |
| Males | 32 | 31 |
| Females | 34 | 32 |

**Sensitivity Analysis**

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

| | Increase US$M | Increase % | Decrease US$M | Decrease % |
|---|---|---|---|---|
| **Benefit obligation** | | | | |
| One-percentage point change | | | | |
| - 1%/ +1% Discount rate | 385 | 30 | (292) | (23) |
| +1% / -1% Inflation rate | 306 | 24 | (247) | (19) |
| +1% / -1% Salary increases rate | 17 | 1 | (16) | (1) |
| +1 / -1 year to life expectancy at 60 | 23 | 2 | (24) | (2) |
| **Total periodic pension cost** | | | | |
| One-percentage point change | | | | |
| - 1% / +1% Expected return on assets | 11 | 122 | (11) | (122) |

**Plan assets and investment strategy**

CSSEL defined benefit pension plan employs a total return investment approach, whereby a diversified mix of equities, fixed income investments and alternative investments is used to maximise the long term return of plan assets while incurring a prudent level of risk. The intention of this strategy is to outperform plan liabilities over the long run in order to minimise plan expenses. Risk tolerance is established through careful consideration of plan liabilities, plan funded status and corporate financial condition. Furthermore, equity investments are diversified across UK and non-UK stocks as well as between growth, value and small and large capitalisation stocks. Other assets such as hedge funds are used to enhance long term returns while improving portfolio diversification. Derivatives may be used to take market exposure, but are not used to leverage the portfolio beyond the market value of the underlying investments. Investment risk is measured and monitored on an ongoing basis through annual liability measurements, periodic asset/liability studies and quarterly investment portfolio reviews. To limit investment risk, CSSEL pension plans follow defined strategic asset allocation guidelines. Depending on the market conditions, these guidelines are even more limited on a short-term basis.

CSSEL employs a building block approach in determining the long-term rate of return on pension plan assets. Historical markets are studied and assets with higher volatility are assumed to generate higher returns consistent with widely accepted capital market principles. The overall expected rate of return on assets is then derived

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

by aggregating the expected return for each asset class over the target asset allocation for the Fund at the 31 December 2010.

| | Fair value | % of total fair value of scheme assets | Fair value | % of total fair value of scheme assets |
|---|---|---|---|---|
| | 2010 | 2010 | 2009 | 2009 |
| | US$M | % | US$M | % |
| Equity securities | 824 | 58.7 | 990 | 83.5 |
| Debt securities | 533 | 38.0 | 185 | 15.5 |
| Alternative Investments (primarily Swaps) | (101) | (7.2) | (125) | (10.5) |
| Cash | 148 | 10.5 | 136 | 11.5 |
| **Fair value of plan assets** | **1,404** | **100.0** | **1,186** | **100.0** |

**Defined Contribution Pension Plans**

The Bank also contributes to various defined contribution pensions primarily in the United Kingdom. The contributions in these plans during 2010 and 2009 were US$14M and US$7M respectively.

**28. Employee Share-based Compensation and Other Compensation Benefits**

Payment of share-based compensation and other compensation benefits is determined by the nature of the business, role, location and performance of the employee. Unless there is a contractual obligation, share-based compensation and the other compensation benefits are paid solely at the discretion of the Bank and CSG.
Compensation and benefits for a given year include salaries, benefits and variable compensation. Variable compensation reflects the performance-based and retention compensation for the current year, the expense from share-based and other deferred compensation from prior-year awards and mark-to-market adjustments. The portion of the variable compensation for the current year deferred through share-based and other awards is expensed in future periods and subject to restrictive features such as continued employment with the Group, vesting, forfeiture and blocking rules.

Total compensation expense for cash-settled share-based compensation plans recognised during 2010 and 2009 was US$91M and US$248M respectively. The total stock award liability recorded as at 31 December 2010 was US$147M (2009: US$230M). The fair value used to calculate the stock award liability was the closing CSG share price as at 31 December 2010 CHF 37.67 (2009: CHF 51.20). The average weighted fair value of awards granted in 2010 was CHF 49.19 (2009: CHF 30.68). The intrinsic value of vested share based awards outstanding as at year end was US$19M (2009: US$15M).

Below are the major schemes of share based compensation and other compensation benefits:

**Share awards**

Share awards were granted in January 2011 as part of the 2010 variable deferred compensation awarded to certain employees. The share awards replace other plans introduced in prior years, including SISUs, ISUs and PIP in an effort to make the design of the company's compensation instruments simpler, more transparent and less leveraged and to better align the interests of the employees with those of the shareholders. Each share award granted entitles the holder of the award to receive one CSG share. One quarter of the share awards vest on each of the four anniversaries of the date of grant. The value that is delivered is equal to the CSG share price at the time of delivery, as the share awards do not contain any leverage component or multiplier effect as contained in earlier awards.

The fair value of each share award was CHF 42.51, equivalent to the CSG's closing share price on the date of grant.

***Incentive Share Unit ('ISU')***

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. For

**28. Employee Share-based Compensation and Other Compensation Benefits (continued)**

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 and 2009, 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. For the ISUs granted in January 2008, the number of additional shares per ISU was limited to a maximum of ten shares.

Movements in the number of ISUs outstanding were as follows:

| **Group and Bank** | **Base 2010 Millions** | **Leverage 2010 Millions** | **Base 2009 Millions** | **Leverage 2009 Millions** |
|---|---|---|---|---|
| **ISU Awards** | | | | |
| As at 1 January | 1.99 | 4.48 | 3.8 | 4.12 |
| Granted | 0.59 | 0.59 | 1.19 | 1.19 |
| Share transferred out | (0.07) | (0.08) | (0.25) | (0.27) |
| Delivered | (0.39) | (0.97) | (2.71) | - |
| Forfeited | (0.12) | (0.34) | (0.04) | (0.56) |
| **As at 31 December** | **2.00** | **3.68** | **1.99** | **4.48** |

***Scaled Incentive Share Unit ('SISU')***

The SISU 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 date of grant, 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 after the SISUs vest. SISUs include a two-year moratorium on early retirement, determined from the date of grant.

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 the grant value.

Movements in the number of SISUs outstanding were as follows:

| **Group and Bank** | **2010 US$M Base** | **2010 US$M Leverage** |
|---|---|---|
| **SISU Awards** | | |
| As at 1 January | - | - |
| Granted | 1.47 | 1.47 |
| Share transferred in/out | (0.06) | (0.06) |
| Delivered | - | - |
| Forfeited | (0.06) | (0.08) |
| **As at 31 December** | **1.35** | **1.33** |

**28. Employee Share-based Compensation and Other Compensation Benefits (continued)**

***Performance Incentive Plan units ('PIPs')***
As part of its annual incentive performance bonus process for 2004 and 2005, CSG granted PIP share units during 2005 and 2006, respectively. PIP units are long-term retention incentive awards requiring continued employment with CSG subject to restrictive covenants and cancellation provisions, and vest evenly over a five-year period. Each PIP unit will settle for a specified number of registered CSG shares subsequent to the fifth anniversary of the grant date based on the achievement of: (i) earnings performance as compared to predefined targets (performance conditions); and (ii) CSG share price performance compared to predefined targets and CSG share price performance relative to peers (market conditions). The performance conditions 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 I units granted in 2005 were settled in April 2010 in accordance with the terms and conditions of the plan and each outstanding PIP I unit settled for approximately 4.8 CSG shares. The PIP II units granted in 2006 are due to settle in May 2011. For PIP II, the performance condition was finalised as of 31 December 2010 and will result in the conversion of each outstanding initial PIP unit into 0.93 final PIP II units upon settlement. Based on the current estimate of the outcome of the CSG share price target for PIP II, it is probable that the minimum share price target of CHF 47 will not be met and thus each final PIP II unit will settle for zero CSG shares.

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

| Group and Bank | 2010 Millions | 2009 Millions |
|---|---|---|
| **PIP Units** | | |
| As at 1 January | 0.69 | 0.69 |
| Granted | - | - |
| Shares transferred out | - | - |
| Delivered | (0.49) | - |
| Forfeited | - | - |
| **As at 31 December** | **0.20** | **0.69** |

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

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

| Group and Bank | 2010 Millions | 2009 Millions |
|---|---|---|
| **Share awards** | | |
| As at 1 January | 1.38 | 1.27 |
| Granted | 0.32 | 0.95 |
| Shares transferred out | (0.04) | 0.03 |
| Delivered | (0.36) | (0.79) |
| Forfeited | (0.17) | (0.08) |
| **As at 31 December** | **1.13** | **1.38** |

## 28. Employee Share-based Compensation and Other Compensation Benefits (continued)

### Other Compensation Benefits

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

As part of the 2008 annual compensation process, CSG awarded employees with a corporate title of managing director or director the majority of the deferred portion of their variable compensation in the form of PAF awards, denominated in US dollars. The PAF awards are indexed to, and represent a first-loss interest in, a specified pool of illiquid assets (Asset Pool) that originated in CSG Investment Banking division. The notional value of the Asset Pool was based on the fair market value of the assets within the Asset Pool on 31 December 2008, and those assets will remain static throughout the contractual term of the award or until liquidated. The PAF holders will participate in the potential gains on the Asset Pool if the assets within the pool are liquidated at prices above the initial fair market value. If the assets within the Asset Pool are liquidated at prices below the initial fair market value, the PAF holders will bear the first loss on the Asset Pool.

The contractual term of the PAF award is eight years. 66.7% of the PAF awards were fully vested upon grant and attributed to services performed in 2008 and 33.3% of the PAF awards vested over the first three months of 2009. All PAF awards remain subject to non-compete/non-solicit provisions that expire in respect of one-third of the awards on each of the three anniversaries of the grant date. Each PAF holder will receive a semi-annual cash interest payment of LIBOR plus 250 basis points applied to the notional value of the PAF award granted throughout the contractual term of the award. Beginning in the fifth year after the date of grant, the PAF holders will receive an annual cash payment equal to 20% of the notional value of the PAF awards if the fair market value of the Asset Pool in that year has not declined below the initial fair market value of the Asset Pool. In the final year of the contractual term, the PAF holders will receive a final settlement in cash equal to the notional value, less all previous cash payments made to the PAF holder, plus any related gains or less any related losses on the liquidation of the Asset Pool. Total compensation expense for PAF recognised during 2010 was US$7M (2009: US$70M).

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

In connection with the 2008 compensation awards, a portion of the variable compensation was granted in the form of Cash Retention Awards (CRA). These CRA payments, which were made in the first quarter of 2009, are subject to vesting ratably over a two-year period and to other conditions and any unvested CRA will have to be repaid if a claw-back event, such as voluntary termination of employment, occurs. Total compensation expense for CRA recognised during 2010 was US$11M (2009: US$66M).

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

The Adjustable Performance Plan (APP) is a deferred, cash-based scheme that links outstanding balances through positive and negative adjustments to future performance. The Company introduced and granted APP awards as part of variable deferred compensation for 2009 (2009 APP). The Company continued to grant APP awards as part of variable deferred compensation for 2010 (2010 APP) and amended and simplified certain features in the 2010 APP to embrace emerging market trends and feedback from regulators.

The 2009 APP awards are subject to a three-year, pro-rata vesting schedule. The final value of the APP awards paid out to individual employees may be adjusted positively or negatively from the initial amount awarded on the grant date, and the value paid out each year for vested awards will reflect these adjustments as described below.

For revenue-generating employees in the divisions, outstanding APP awards can be adjusted positively or negatively depending on the financial performance of the specific business areas in which the employees work. The adjustments are determined on an annual basis by calculating the profit or loss before variable compensation expense and taxes (adjusted profit or adjusted loss) of the business area in which the employee worked at the time of grant and in consideration of the CSG ROE. In the case of a business area adjusted profit and a positive CSG ROE for the year, all outstanding APP awards will be positively adjusted using the CSG ROE percentage for that year as a multiplier. In the case of a business area adjusted profit but a negative CSG ROE for the year, there will be no adjustment to all outstanding APP awards. In the case of a business area adjusted loss during any of the three years in the vesting period, a negative adjustment will be applied to all outstanding APP awards in the year of loss, irrespective of the CSG ROE.

**28. Employee Share-based Compensation and Other Compensation Benefits (continued)**

For employees in Shared Services and other support functions, all outstanding APP awards are linked to the CSG's adjusted profit or loss and the CSG ROE, but are not dependent upon the adjusted profit or loss of the business areas that they support. Only an adjusted loss of the Group will trigger a negative adjustment of all outstanding APP awards. This link to CSG performance is intended to ensure that the compensation of employeesin support functions is not directly linked to the performance of the businesses they support.

The 2010 APP awards are similar to the 2009 APP awards, except the pro-rata vesting will occur over a four-year period and the outstanding 2010 APP awards will be subject to annual adjustments, increasing or decreasing the outstanding balances by a percentage equal to the 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 10% for every CHF 1 BN of loss, unless a negative Group ROE applies for that year and is greater than the divisional adjustment.

Total compensation expense for APPA recognised during 2010 was US$67M (2009: US$NIL).

**29. Related Parties**

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

The Group has significant related party balances with subsidiaries and affiliates of CSG. These transactions largely comprise derivative trades, as the Bank is the principal risk taker for derivatives within the CS group, as well as funding trades via use of loans or deposits, repurchase or resale agreements. In addition, the ordinary, preference and participating shares are issued to CSG and subsidiaries of CSG, as outlined in Note 26-Called-up Share Capital and Share Premium. The Bank is also charged for operating costs that mainly relate to employee-related services and other business expenses. Further, these transactions also include transfer pricing income/charges with CS group entities that provide services in respect of the global derivatives business which is centrally booked in the Bank.

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

**29. Related Parties (continued)**

**a) Related party assets and liabilities**

| **Group** | **31 December 2010** | | | **31 December 2009** | | |
|---|---|---|---|---|---|---|
| **Assets** | **Parent** | **Fellow group companies** | **Total** | **Parent** | **Fellow group companies** | **Total** |
| | **US$M** | **US$M** | **US$M** | **US$M** | **US$M** | **US$M** |
| Cash and due from banks | 291 | 18,390 | 18,681 | 424 | 16,521 | 16,945 |
| Interest-bearing deposits with banks | - | 20 | 20 | - | 22 | 22 |
| Securities purchased under resale agreements and securities borrowing transactions | 4,302 | 10,638 | 14,940 | - | 19,259 | 19,259 |
| Trading assets | 3,100 | 41,982 | 45,082 | 1,948 | 47,958 | 49,906 |
| Other financial assets designated at fair value through profit or loss | 274 | 6,289 | 6,563 | 574 | 8,926 | 9,500 |
| Other loans and receivables | - | 2,359 | 2,359 | 1 | 2,171 | 2,172 |
| Other assets | 1 | 9,070 | 9,071 | 2 | 4,134 | 4,136 |
| Current Tax Asset | - | 29 | 29 | - | - | - |
| **Total assets** | **7,968** | **88,777** | **96,745** | **2,949** | **98,991** | **101,940** |

| **Liabilities** | | | | | | |
|---|---|---|---|---|---|---|
| Deposits | 11 | 1,220 | 1,231 | 7 | 1,145 | 1,152 |
| Securities sold under repurchase agreements and securities lending transactions | 684 | 7,200 | 7,884 | - | 4,119 | 4,119 |
| Trading liabilities | 1,820 | 46,190 | 48,010 | 1,142 | 55,671 | 56,813 |
| Other financial liabilities designated at fair value through profit or loss | 33 | 9,087 | 9,120 | 27 | 12,475 | 12,502 |
| Short term borrowings | - | 18,981 | 18,981 | - | 27,563 | 27,563 |
| Long term debt | - | 30,314 | 30,314 | - | 12,729 | 12,729 |
| Other liabilities | 4 | 4,078 | 4,082 | 9 | 5,340 | 5,349 |
| Share Capital | 998 | 8,627 | 9,625 | 564 | 8,561 | 9,125 |
| Share Premium | 108 | 908 | 1,016 | 108 | 4,760 | 4,868 |
| **Total liabilities** | **3,658** | **126,605** | **130,263** | **1,857** | **132,363** | **134,220** |

**29. Related Parties (continued)**

| Bank | 31 December 2010 | | | | 31 December 2009 | | | |
|---|---|---|---|---|---|---|---|---|
| **Assets** | **Parent** | **Fellow group companies** | **Subsidiaries and SPEs** | **Total** | **Parent** | **Fellow group companies** | **Subsidiaries and SPEs** | **Total** |
| | **US$M** | **US$M** | **US$M** | **US$M** | **US$M** | **US$M** | **US$M** | **US$M** |
| Cash and due from banks | 291 | 18,388 | -- | 18,679 | 423 | 16,520 | - | 16,943 |
| Interest-bearing deposits with banks | - | 3 | - | 3 | - | 5 | - | 5 |
| Securities purchased under resale agreements and securities borrowing transactions | 4,302 | 10,638 | - | 14,940 | - | 19,259 | - | 19,259 |
| Trading assets | 3,100 | 42,015 | 1,817 | 46,932 | 1,948 | 48,138 | 683 | 50,769 |
| Other financial assets designated at fair value through profit or loss | 274 | 8,086 | - | 8,360 | 574 | 9,168 | - | 9,742 |
| Other loans and receivables | - | 2,359 | - | 2,359 | 1 | 2,171 | - | 2,172 |
| Other assets | 1 | 9,083 | 1,510 | 10,594 | 2 | 4,140 | 1,463 | 5,605 |
| Investments in subsidiary undertakings | - | - | 27 | 27 | - | 1 | 26 | 27 |
| Current Tax Assets | - | 29 | - | 29 | - | - | - | - |
| **Total assets** | **7,968** | **90,601** | **3,354** | **101,923** | **2,948** | **99,402** | **2,172** | **104,522** |
| | | | | | | | | |
| **Liabilities** | | | | | | | | |
| Deposits | 11 | 1,220 | - | 1,231 | 7 | 1,145 | - | 1,152 |
| Securities sold under repurchase agreements and securities lending transactions | 684 | 7,200 | - | 7,884 | - | 4,119 | - | 4,119 |
| Trading liabilities | 1,820 | 46,139 | 563 | 48,522 | 1,142 | 55,671 | 309 | 57,122 |
| Other financial liabilities designated at fair value through profit or loss | 33 | 10,884 | 47 | 10,964 | 27 | 13,179 | 222 | 13,428 |
| Short term borrowings | - | 18,982 | 265 | 19,247 | - | 27,563 | 263 | 27,826 |
| Long term debt | - | 30,314 | - | 30,314 | - | 12,729 | - | 12,729 |
| Other liabilities | 4 | 4,076 | 1,330 | 5,410 | 9 | 5,334 | 1,290 | 6,633 |
| Share Capital | 998 | 8,627 | - | 9,625 | 564 | 8,561 | - | 9,125 |
| Share Premium | 108 | 908 | - | 1,016 | 108 | 4,760 | - | 4,868 |
| **Total liabilities** | **3,658** | **128,350** | **2,205** | **134,213** | **1,857** | **133,061** | **2,084** | **137,002** |

**29. Related Parties (continued)**

**b) Related party off-balance sheet transactions**

| **Group** | **31 December 2010** | | | | **31 December 2009** | | | |
|---|---|---|---|---|---|---|---|---|
| | **Parent** | **Fellow group companies** | **Subsidiaries and SPEs** | **Total** | **Parent** | **Fellow group companies** | **Subsidiaries and SPEs** | **Total** |
| | **US$M** | **US$M** | **US$M** | **US$M** | **US$M** | **US$M** | **US$M** | **US$M** |
| Guarantees | 2,272 | 95,702 | - | 97,974 | - | 41,195 | - | 41,195 |
| **Total** | **2,272** | **95,702** | | **97,974** | **-** | **41,195** | **-** | **41,195** |

| **Bank** | **31 December 2010** | | | | **31 December 2009** | | | |
|---|---|---|---|---|---|---|---|---|
| | **Parent** | **Fellow group companies** | **Subsidiaries and SPEs** | **Total** | **Parent** | **Fellow group companies** | **Subsidiaries and SPEs** | **Total** |
| | **US$M** | **US$M** | **US$M** | **US$M** | **US$M** | **US$M** | **US$M** | **US$M** |
| Guarantees | 2,272 | 95,702 | - | 97,974 | - | 41,195 | - | 41,195 |
| **Total** | **2,272** | **95,702** | **-** | **97,974** | **-** | **41,195** | **-** | **41,195** |

**29. Related Parties (continued)**

**c) Related party revenues and expenses**

| Group | 2010 | | | 2009 | | |
|---|---|---|---|---|---|---|
| | Parent | Fellow group companies | Total | Parent | Fellow group companies | Total |
| | US$M | US$M | US$M | US$M | US$M | US$M |
| Interest income | 11 | 275 | 286 | 1 | 709 | 710 |
| Interest expense | - | (830) | (830) | - | (1,286) | (1,286) |
| **Net interest expense** | **11** | **(555)** | **(544)** | **1** | **(577)** | **(576)** |
| Commissions and fees | - | (185) | (185) | - | (184) | (184) |
| Revenue sharing agreements expense | (14) | (1,040) | (1,054) | (8) | (742) | (750) |
| **Total non interest revenues** | **(14)** | **(1,225)** | **(1,239)** | **(8)** | **(926)** | **(934)** |
| **Net operating income** | **(3)** | **(1,780)** | **(1,783)** | **(7)** | **(1,503)** | **(1,510)** |
| **Total operating expenses** | **-** | **(723)** | **(723)** | **-** | **(167)** | **(167)** |

**29. Related Parties (continued)**

**d) Related Party Averages**

The table below provides the average balances during the year which are indicative of the volume of transactions that the Group has with related parties during the year.

| | 2010 Average US$M | 2009 Average US$M |
|---|---|---|
| **Assets** | | |
| Securities purchased under resale agreements and securities borrowing transactions | 15,930 | 25,375 |
| Trading assets | 40,389 | 76,058 |
| Other assets | 7,496 | 6,227 |
| **Liabilities** | | |
| Securities sold under repurchase agreements and securities lending transactions | 9,364 | 18,083 |
| Trading liabilities | 45,847 | 80,730 |
| Short term borrowing | 16,947 | 45,289 |
| Other liabilities | 3,860 | 5,810 |
| **Off-balance sheet** | | |
| Guarantees | 88,160 | 53,749 |

The averages above have been calculated using month end balances.

**e) Remuneration**

The numbers disclosed in the 'Remuneration of Directors' and 'Key Management Personnel' is based on amounts accrued in the financial statements for all emoluments and deferred cash awards and on the amounts actually awarded for share based awards for a particular year.

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

***Remuneration of Directors***

| | 2010 US$'000 | 2009 US$'000 (restated) |
|---|---|---|
| Emoluments | 1,287 | 249 |
| Long term incentive schemes | 9,013 | 327 |
| **Total** | **10,300** | **576** |
| Bank's contributions to defined contribution plan | 35 | 4 |
| **Total** | **10,335** | **580** |

**29. Related Parties (continued)**

The aggregate value of services rendered by Directors to the Company for 2010 for Directors was US$8,636,000 (2009: US$2,522,000 as restated).

Included in the long term incentive schemes is US$4,115,000 (2009: US$206,000 as restated) relating to the expense of cash schemes and the remainder relates to the awarded amounts in connection with share based schemes.

The aggregate of emoluments and amounts accrued under long term incentive schemes provided in the accounts for the highest paid director was US$2,873,000 (2009: US$2,518,000 as restated). The director was also a member of a defined contribution pension plan and the contribution paid during the year into the plan was US$18,000 (2009: US$4,000 as restated). During the year the highest paid director received an entitlement to shares under a long term incentive scheme.

**g) Number of Directors and Benefits**

| | **Number of Directors 2010** | **Number of Directors 2009** |
|---|---|---|
| Retirement benefits are accruing to the following number of Directors under: | | |
| Defined contribution schemes | 9 | 9 |
| Defined benefit schemes | - | - |
| Both defined contribution and defined benefit | - | - |
| The number of Directors who exercised share options | - | 1 |
| **Directors in respect of whom services were received or receivable under long term incentive schemes** | **9** | **9** |

**h) Remuneration of Key Management Personnel**

| | **2010 US$'000** | **2009 US$'000 (restated)** |
|---|---|---|
| Emoluments | 4,753 | 3,517 |
| Long term incentive schemes | 20,785 | 5,617 |
| **Total** | **25,538** | **9,134** |
| Bank's contributions to defined contribution plan | 101 | 25 |
| **Total** | **25,639** | **9,159** |

**CSG Shares awarded to Key Management Personnel**

| | **2010** | **2009** |
|---|---|---|
| Number of SISUs | - | 128,170 |
| Number of other shares | 285,263 | - |

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

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

**i) Loans and Advances to Directors and Key Management Personnel**

There were no loans outstanding to or due from Directors or key management personnel of the Group at 31 December 2010 (2009: US$Nil).

**30. Employees**

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

| Group and Bank | 2010 Number | 2009 Number |
|---|---|---|
| Front office | 352 | 192 |
| Back office | 568 | 760 |
| **Total** | **920** | **952** |

The Group receives a range of administrative services from related companies. The headcount related to these services cannot be accurately ascertained and is not therefore included in the above numbers.

Staff costs and staff numbers do not differ between Bank and Group.

**31. Derivatives and Hedging Activities**

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

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

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

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

***Trading Activities***

The Bank is active in most of the principal trading markets and transacts in many popular trading and hedging products. As noted above, this includes the use of swaps, futures, options and structured products (custom transactions using combinations of derivatives) in connection with its sales and trading activities. Trading activities include market-making, positioning and arbitrage activities. The majority of the Bank's derivatives held as at 31 December 2010 were used for trading activities.

***Economic Hedges***

The Bank uses these derivatives to manage risk on its trading portfolios. However, although these economic hedge relationships are used to manage risk, they do not qualify for hedge accounting treatment under IFRS.

***Fair Value Hedges***

The Bank maintains an overall interest rate risk management strategy that incorporates the use of derivative instruments to minimise fluctuations in earnings that are caused by interest rate volatility.

The Bank also uses cross currency swaps to convert foreign currency denominated fixed rate assets or liabilities to floating rate functional currency assets or liabilities. The following table sets forth details of fair value hedges:

| Group and Bank | 2010 US$M | 2009 US$M |
|---|---|---|
| Gains on the hedging instruments | 31 | 53 |
| Losses on the hedge item attributable to the hedged risk | (30) | (43) |
| Fair value of derivative transactions used as fair value hedges | - | 27 |

**31. Derivatives and Hedging Activities (continued)**

There were no Fair Value hedges in place as at the end of 2010 and the Gain and Losses are generated from the hedges that were in existence during the first half of the year.

***Hedge effectiveness assessment***

The Bank 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 Bank 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 Bank to determine whether or not the hedging relationship has actually been effective. If the Bank 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:

| **31 December 2010** | **Trading** | | **Hedging** | |
|---|---|---|---|---|
| **Group** | Positive replacement value **US$M** | Negative replacement value **US$M** | Positive replacement value **US$M** | Negative replacement value **US$M** |
| Forwards and forward rate agreements | 3,420 | 3,047 | - | - |
| Swaps | 470,178 | 463,597 | - | - |
| Options bought and sold (OTC) | 47,874 | 49,171 | - | - |
| Options bought and sold (traded) | 313 | 129 | - | - |
| **Interest rate products** | **521,785** | **515,944** | **-** | **-** |
| Forwards and forward rate agreements | 5,873 | 6,556 | - | - |
| Swaps | 38,386 | 50,267 | - | - |
| Options bought and sold (OTC) | 11,663 | 11,887 | - | - |
| **Foreign exchange products** | **55,922** | **68,710** | **-** | **-** |
| Forwards and forward rate agreements | 1,780 | 1,477 | - | - |
| Options bought and sold (OTC) | 618 | 769 | - | - |
| **Precious metals products** | **2,398** | **2,246** | **-** | **-** |
| Forwards and forward rate agreements | - | 1 | - | - |
| Swaps | 4,314 | 6,393 | - | - |
| Options bought and sold (OTC) | 14,912 | 16,557 | - | - |
| Options bought and sold (traded) | 9,790 | 10,456 | - | - |
| **Equity/indexed-related products** | **29,016** | **33,407** | **-** | **-** |
| Swaps | 60,762 | 59,116 | - | - |
| Options bought and sold (OTC) | 107 | 2 | - | - |
| **Credit products** | **60,869** | **59,118** | **-** | **-** |
| Forwards and forward rate agreements | 1,386 | 1,330 | - | - |
| Swaps | 4,841 | 6,858 | - | - |
| Options bought and sold (OTC) | 1,254 | 1,232 | - | - |
| Options bought and sold (traded) | 1,831 | 1,892 | - | - |
| **Other products** | **9,312** | **11,312** | **-** | **-** |
| **Total derivative instruments** | **679,302** | **690,737** | **-** | **-** |

**31. Derivatives and Hedging Activities (continued)**

| **31 December 2009** | **Trading** | | **Hedging** | |
|---|---|---|---|---|
| **Group** | Positive replacement value | Negative replacement value | Positive replacement value | Negative replacement value |
| | **US$M** | **US$M** | **US$M** | **US$M** |
| Forwards and forward rate agreements | 3,515 | 3,456 | - | - |
| Swaps | 467,715 | 459,284 | - | 6 |
| Options bought and sold (OTC) | 42,363 | 44,798 | - | - |
| **Interest rate products** | **513,593** | **507,538** | **-** | **6** |
| Forwards and forward rate agreements | 4,915 | 6,081 | - | - |
| Swaps | 30,289 | 34,090 | - | - |
| Options bought and sold (OTC) | 9,789 | 10,420 | - | - |
| **Foreign exchange products** | **44,993** | **50,591** | **-** | **-** |
| Forwards and forward rate agreements | 1,377 | 977 | - | - |
| Options bought and sold (OTC) | 404 | 928 | - | - |
| **Precious metals products** | **1,781** | **1,905** | **-** | **-** |
| Forwards and forward rate agreements | 12 | 1 | | |
| Swaps | 4,858 | 6,044 | | |
| Options bought and sold (OTC) | 16,776 | 20,662 | - | - |
| **Equity/indexed-related products** | **21,646** | **26,707** | - | - |
| Swaps | 82,361 | 80,226 | 33 | - |
| Options bought and sold (OTC) | 7 | 6 | - | - |
| **Credit products** | **82,368** | **80,232** | **33** | **-** |
| Forwards and forward rate agreements | 396 | 764 | - | - |
| Swaps | 4,855 | 5,931 | - | - |
| Options bought and sold (OTC) | 1,093 | 1,130 | - | - |
| **Other products** | **6,344** | **7,825** | **-** | **-** |
| **Total derivative instruments** | **670,725** | **674,798** | **33** | **6** |

| **Group** | **2010** | | **2009** | |
|---|---|---|---|---|
| | Positive replacement value | Negative replacement value | Positive replacement value | Negative replacement value |
| | **US$M** | **US$M** | **US$M** | **US$M** |
| Replacement values (trading and hedging) before netting | 679,302 | 690,737 | 670,755 | 674,804 |
| Replacement values (trading and hedging) after netting | 406,713 | 418,193 | 409,905 | 420,074 |

**31. Derivatives and Hedging Activities (continued)**

| **31 December 2010** | **Trading** | | **Hedging** | |
|---|---|---|---|---|
| **Bank** | Positive replacement value **US$M** | Negative replacement value **US$M** | Positive replacement value **US$M** | Negative replacement value **US$M** |
| Forwards and forward rate agreements | 3,420 | 3,047 | - | - |
| Swaps | 470,309 | 463,695 | - | - |
| Options bought and sold (OTC) | 47,874 | 49,171 | - | - |
| Options bought and sold (traded) | 313 | 129 | - | - |
| **Interest rate products** | **521,916** | **516,042** | **-** | **-** |
| Forwards and forward rate agreements | 5,873 | 6,556 | - | - |
| Swaps | 38,850 | 50,579 | - | - |
| Options bought and sold (OTC) | 11,663 | 11,932 | - | - |
| **Foreign exchange products** | **56,386** | **69,067** | **-** | **-** |
| Forwards and forward rate agreements | 1,780 | 1,477 | - | - |
| Options bought and sold (OTC) | 618 | 769 | - | - |
| **Precious metals products** | **2,398** | **2,246** | **-** | **-** |
| Forwards and forward rate agreements | - | 1 | - | - |
| Swaps | 4,314 | 6,393 | - | - |
| Options bought and sold (OTC) | 14,912 | 16,587 | - | - |
| Options bought and sold (traded) | 9,790 | 10,456 | - | - |
| **Equity/indexed-related products** | **29,016** | **33,437** | **-** | **-** |
| Swaps | 60,764 | 59,116 | - | - |
| Options bought and sold (OTC) | 107 | 2 | - | - |
| **Credit products** | **60,871** | **59,118** | **-** | **-** |
| Forwards and forward rate agreements | 1,376 | 1,330 | - | - |
| Swaps | 4,841 | 6,858 | - | - |
| Options bought and sold (OTC) | 1,254 | 1,230 | - | - |
| Options bought and sold (traded) | 1,831 | 1,892 | - | - |
| **Other products** | **9,302** | **11,310** | **-** | **-** |
| **Total derivative instruments** | **679,889** | **691,220** | - | - |

**31. Derivatives and Hedging Activities (continued)**

| **31 December 2009** | **Trading** | | **Hedging** | |
|---|---|---|---|---|
| **Bank** | Positive replacement value **US$M** | Negative replacement value **US$M** | Positive replacement value **US$M** | Negative replacement value **US$M** |
| Forwards and forward rate agreements | 3,515 | 3,456 | - | - |
| Swaps | 467,730 | 459,295 | - | 6 |
| Options bought and sold (OTC) | 42,467 | 44,804 | - | - |
| **Interest rate products** | **513,712** | **507,555** | **-** | **6** |
| Forwards and forward rate agreements | 4,915 | 6,081 | - | - |
| Swaps | 30,854 | 34,409 | - | - |
| Options bought and sold (OTC) | 9,789 | 10,420 | - | - |
| **Foreign exchange products** | **45,558** | **50,910** | **-** | **-** |
| Forwards and forward rate agreements | 1,377 | 977 | - | - |
| Options bought and sold (OTC) | 404 | 928 | - | - |
| **Precious metals products** | **1,781** | **1,905** | **-** | **-** |
| Forwards and forward rate agreements | 12 | 1 | - | - |
| Swaps | 4,858 | 6,044 | - | - |
| Options bought and sold (OTC) | 16,776 | 20,662 | | |
| **Equity/indexed-related products** | **21,646** | **26,707** | - | - |
| Swaps | 82,539 | 80,223 | 33 | - |
| Options bought and sold (OTC) | 7 | 6 | - | - |
| **Credit products** | **82,546** | **80,229** | **33** | **-** |
| Forward rate agreements | 396 | 764 | - | - |
| Swaps | 4,855 | 5,931 | - | - |
| Options bought and sold (OTC) | 1,093 | 1,130 | - | - |
| **Other products** | **6,344** | **7,825** | **-** | **-** |
| **Total derivative instruments** | **671,587** | **675,131** | **33** | **6** |

| **Bank** | **2010** | | **2009** | |
|---|---|---|---|---|
| | Positive replacement value **US$M** | Negative replacement value **US$M** | Positive replacement value **US$M** | Negative replacement value **US$M** |
| Replacement values (trading and hedging) before netting | 679,889 | 691,220 | 671,620 | 675,137 |
| Replacement values (trading and hedging) after netting | 407,299 | 418,676 | 410,768 | 420,406 |

**32. Guarantees and Commitments**

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

| **Group and Bank 31 December 2010** | **Maturity <1 year US$M** | **Maturity 1-3 years US$M** | **Maturity 3-5 years US$M** | **Maturity >5 years US$M** | **Total gross amount US$M** | **Collateral received US$M** | **Net of collateral US$M** |
|---|---|---|---|---|---|---|---|
| Credit guarantees and similar instruments | 93 | 512 | 776 | - | 1,381 | 1,220 | 161 |
| Performance guarantees and similar instruments | - | 11 | 300 | - | 311 | 311 | - |
| Derivatives | 122,430 | 301,693 | 306,387 | 138,762 | 869,272 | - | 869,272 |
| **Total guarantees** | **122,523** | **302,216** | **307,463** | **138,762** | **870,964** | **1,531** | **869,433** |

**32. Guarantees and Commitments (continued)**

| **Group and Bank 31 December 2010** | **Maturity <1 year** | **Maturity 1-3 years** | **Maturity 3-5 years** | **Maturity >5 years** | **Total gross amount** | **Collateral received** | **Net of collateral** |
|---|---|---|---|---|---|---|---|
| | **US$M** | **US$M** | **US$M** | **US$M** | **US$M** | **US$M** | **US$M** |
| Irrevocable commitments under documentary credit | 10 | 212 | 39 | - | 261 | 32 | 229 |
| Loan commitments | 4,096 | 4,303 | 1,192 | 303 | 9,894 | 3,696 | 6,198 |
| **Total other commitments** | **4,106** | **4,515** | **1,231** | **303** | **10,155** | **3,728** | **6,427** |

| **Group and Bank 31 December 2009** | **Maturity <1 year** | **Maturity 1-3 years** | **Maturity 3-5 years** | **Maturity >5 years** | **Total gross amount** | **Collateral received** | **Net of collateral** |
|---|---|---|---|---|---|---|---|
| | **US$M** | **US$M** | **US$M** | **US$M** | **US$M** | **US$M** | **US$M** |
| Credit guarantees and similar instruments | 59 | 91 | 863 | - | 1,013 | 886 | 127 |
| Performance guarantees and similar instruments | - | 7 | 21 | - | 28 | 28 | - |
| Derivatives | 115,222 | 278,915 | 330,692 | 141,215 | 866,044 | - | 866,044 |
| **Total guarantees** | **115,281** | **279,013** | **331,576** | **141,215** | **867,085** | **914** | **866,171** |

| **Group and Bank 31 December 2009** | **Maturity <1 year** | **Maturity 1-3 years** | **Maturity 3-5 years** | **Maturity >5 years** | **Total gross amount** | **Collateral received** | **Net of collateral** |
|---|---|---|---|---|---|---|---|
| | **US$M** | **US$M** | **US$M** | **US$M** | **US$M** | **US$M** | **US$M** |
| Irrevocable commitments under documentary credit | 15 | 136 | 418 | 200 | 769 | 15 | 754 |
| Loan commitments | 5,802 | 3,520 | 812 | 22 | 10,156 | 4,324 | 5,832 |
| **Total other commitments** | **5,817** | **3,656** | **1,230** | **222** | **10,925** | **4,339** | **6,586** |

Credit guarantees are contracts that require the 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 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.

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

Derivatives disclosed as guarantees are issued in the ordinary course of business, generally in the form of written put options and credit default swaps. For derivative contracts executed with counterparties which generally act as financial intermediaries, such as investment banks, hedge funds and securities dealers, the Group has concluded that there is no basis on which to assume that these counterparties hold the underlying instruments related to the derivative contracts, and therefore does not report such contracts as guarantees.

The Group manages its exposure to these derivatives by engaging in various hedging strategies. For some contracts, such as written interest rate caps or foreign exchange options, the maximum payout is not determinable, as interest rates or exchange rates could theoretically rise without limit. For these contracts, notional amounts are disclosed in the table above in order to provide an indication of the underlying exposure. In addition, the Group carries all derivatives at fair value in the Statements of Financial Position.

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

**32. Guarantees and Commitments (continued)**

**Lease Commitments**

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

**Group and Bank**

| Operating lease commitments | 2010 US$M | 2009 US$M |
|---|---|---|
| No later than 1 year | 68 | 80 |
| Later than 1 year and no later than 5 years | 273 | 310 |
| Later than 5 years | 695 | 639 |
| **Future operating lease commitments** | **1,036** | **1,029** |
| Less minimum non-cancellable sublease rentals | (61) | (70) |
| **Total net future minimum operating lease commitments** | **975** | **959** |

The future operating lease commitments include service charges of US$15.5M (2009: US$6.7M).

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

| | 2010 US$M | 2009 US$M |
|---|---|---|
| Minimum rentals | 64 | 81 |
| Sublease rental income | (57) | (75) |
| **Total net rental expenses** | **7** | **6** |

**Contingent Liabilities and Other Commitments**

The Group and Bank have contingent liabilities and commitments, entered into in the ordinary course of business, in respect of forward rate agreements, OTC futures, interest rate and currency swaps, options, spot and forward foreign exchange contracts and other OTC off-balance sheet instruments.

The Bank registered a charge to HSBC Bank Brasil S. A. – Banco Multiplo under a Private Instrument of Pledge of Government Bonds and Receivables dated 31 December 2010 for all monies due or to become due on any account whatsoever under the terms of the instrument.

The Bank registered a charge to Itau Unibanco S. A. under a Private Instrument of Pledge of Government Bonds and Receivables dated 29 December 2010 for all monies due or to become due on any account whatsoever under the terms of the instrument.

The Bank registered a charge to ING Bank N. V., Sao Paulo Branch under a Private Instrument of Pledge of Government Bonds and Receivables dated 29 December 2010 for all monies due or to become due on any account whatsoever under the terms of the instrument.

The Bank registered a charge to HSBC Bank Brasil S. A. – Banco Multiplo under a Private Instrument of Pledge of Government Bonds and Receivables dated 29 December 2010 for all monies due or to become due on any account whatsoever under the terms of the instrument.

The Bank registered a charge to Citicorp Trustee Company Limited as trustee for the Noteholders and as a security trustee for the Secured Parties under a Trust Deed dated 22 December 2010 for all monies due or to become due on any account whatsoever under the terms of the instrument.

The Bank registered a charge to Citibank N. A. and other Clearing Agent under a Master Clearing Agreement (Amended) dated 07 December 2010 for all monies due or to become due on any account whatsoever under the terms of the instrument.

**32. Guarantees and Commitments (continued)**

The Bank registered a charge to Alpha Multistrategy Fund IIC IICIL under a Pledge Agreement dated 12 October 2010 for all monies due or to become due on any account whatsoever under the terms of the instrument.

The Bank registered a charge to Dexion Capital (Guernsey) Limited under a Security Deed and Share Charge dated 09 September 2010 for all monies due or to become due on any account whatsoever under the terms of the instrument.

The Bank registered a charge to AXA Life Insurance Company Limited under a Securities and Cash Pledge Agreement dated 03 September 2010 for all monies due or to become due on any account whatsoever under the terms of the instrument.

The Bank registered a charge to BNY Fund Management (Cayman) Limited in relation to a security assignment dated 23 June 2010 for all monies due or to become due on any account whatsoever under the terms of the instrument.

The Bank registered a charge to Aberdeen Asset Management Gestion S. N. C. in relation to a Deed of Assignment dated 26 May 2010 for all monies due or to become due on any account whatsoever under the terms of the instrument with full title guarantee all present and future obligation and interest in and to the assigned assets including all moneys payable to the assignor and any claims awards and judgements in favour of the assignor under or in connection with the assigned assets.

The Bank registered a charge to Inteligo Bank Limited in relation to a security assignment dated 19 May 2010 for all monies due or to become due on any account whatsoever under the terms of the instrument.

The Bank registered a charge to The Bank of New York Mellon under a Debenture Agreement dated 06 May 2010 for all monies due or to become due on any account whatsoever under the terms of the instrument.

The Bank registered a charge to Dekabank Deutsche Girozentrale under a Securities and Cash Pledge Agreement dated 04 May 2010 for all monies due or to become due on any account whatsoever under the terms of the instrument.

The Bank registered a charge to AXA Life Insurance Company Limited under a Securities and Cash Pledge Agreement dated 10 April 2010 for all monies due or to become due on any account whatsoever under the terms of the instrument.

The Bank registered a charge to Entie Commercial Bank under a Euroclear Pledge Agreement dated 25 March 2010 for all monies due or to become due on any account whatsoever under the terms of the instrument.

The Bank registered a charge to Taishin International Bank under a Euroclear Pledge Agreement dated 25 March 2010 for all monies due or to become due on any account whatsoever under the terms of the instrument.

The Bank registered a charge to AXA Belgium S. A. under a Securities and Cash Pledge Agreement dated 24 March 2010 for all monies due from Credit Suisse Securities (Europe) Limited on any account whatsoever under the terms of the instrument.

The Bank registered a charge to Citicorp Trustee Company Limited as trustee for the Noteholders and as a security trustee for the Secured Parties under a Trust Deed dated 09 March 2010.

The Bank registered a charge to AXA Life Insurance Company Limited under a Securities and Cash Pledge Agreement dated 09 February 2010 for all monies due from Credit Suisse Securities (Europe) Limited on any account whatsoever under the terms of the instrument.

The Bank registered a charge to Citicorp Trustee Company Limited under a Security Deed and Share Charge dated 07 January 2010 for all monies due or to become due on any account whatsoever under the terms of the instrument.

**32. Guarantees and Commitments (continued)**

The Bank registered a charge to Ever Grace Group Limited under a Security Deed and Share Charge dated 03 April 2009. Amounts secured by the charge are all present and future obligations and liabilities, in any capacity whatsoever.

The Bank registered a charge to AXA Belgium S.A. under a Securities and Cash Pledge Agreement dated 01 September 2009. Amounts secured by the charge are all present and future obligations and liabilities, in any capacity whatsoever under the terms of the instrument.

The Bank registered a charge to AXA Insurance Limited under a Securities and Cash Pledge Agreement dated 03 September 2009 for all monies due or to become due on any account whatsoever under the terms of the instrument.

The Bank registered a charge to AXA Seguros Generales, S.A. De Seguros Y Reaseguros under a Securities and Cash Pledge Agreement dated 03 September 2009 for all monies due from Credit Suisse Securities (Europe) Limited on any account whatsoever under the terms of the instrument.

The Bank registered a charge to DBV Deutsche Beamtenversicherung Lebensversicherung A.G under a Securities and Cash Pledge Agreement dated 04 September 2009 for all monies due from Credit Suisse Securities (Europe) Limited on any account whatsoever under the terms of the instrument.

The Bank registered a charge to AXA Life Insurance Co Ltd under a Securities and Cash Pledge Agreement dated 11 September 2009 for all monies due from Credit Suisse Securities (Europe) Limited on any account whatsoever under the terms of the instrument.

The Bank registered a charge to BNY Corporate Trustee Services Limited as trustee for the Noteholders and as a security trustee for the Secured Parties under a Trust Deed dated 22 September 2009 for all monies due or to become due on any account whatsoever under the terms of the instrument.

The Bank registered a charge to AXA Krankenversicherung AG under a Securities and Cash Pledge Agreement dated 27 October 2009 for all monies due or to become due on any account whatsoever under the terms of the instrument.

The Bank registered a charge to AXA Insurance Ltd under a Securities and Cash Pledge Agreement dated 27 October 2009 for all monies due or to become due on any account whatsoever under the terms of the instrument.

The Bank registered a charge to AXA Seguros Generals, S.A. De seguros Y Reaseguros under a Securities and Cash Pledge Agreement dated 27 October 2009 for all monies due or to become due on any account whatsoever under the terms of the instrument.

The Bank registered a charge to Citicorp Trustee Company Limited under a Trust Deed dated 16 November 2009 for all obligations and liabilities due or to become due on any account whatsoever under the terms of the instrument.

The Bank registered a charge to BNY Corporate Trustee Services Limited under a Trust Deed dated 18 November 2009 for all obligations and liabilities due or to become due on any account whatsoever under the terms of the instrument.

The Bank registered a charge to BNY Corporate Trustee Services Limited as Trustee for the Noteholders and as Security Trustee for the Secured Parties under a Trust Deed dated 18 November 2009 for all obligations and liabilities due or to become due to the Noteholders, the Chargee and the Agents on any account whatsoever under the terms of the instrument.

The Bank registered a charge to Citicorp Trustee Company Limited as Security Trustee for the holder and Security Trustee for the Secured Parties under a Security Deed dated 23 December 2009 for all obligations and liabilities due or to become due on any account whatsoever under the terms of the instrument.

The Bank registered a charge to Dekabank Deutsche Girozentrale under a Securities and Cash Pledge Agreement dated 19 December 2008. Amounts secured by the charge are all present and future obligations and liabilities, in any

**32. Guarantees and Commitments (continued)**

capacity whatsoever, under or in connection with any of the Repurchase Transactions under the Repurchase Agreement.

The Bank registered a charge to Dekabank Deutsche Girozentrale under a Securities and Cash Pledge Agreement dated 12 December 2008. Amounts secured by the charge are all present and future obligations and liabilities under or in connection with any of the Repurchase Transactions under the Repurchase Agreement.

The Bank registered a charge to Fondazione Enasarco under a Euroclear Pledge Agreement entered into between Fondazione Enasarco and Credit Suisse London Branch, acting as the Pledgee's representative for all present and future liabilities and obligations (whether actual or contingent) pursuant to the Investment Certificate due 2023 linked to the Anthracite Rated Investments (Cayman) Limited Series 26 Principal Protected Notes due 2023.

The Bank registered a charge to Polychord S.A. under a security arrangement agreement date 28 November 2008. Amounts secured by the charge are all present and future moneys, debts and liabilities due, owing or incurred by CSi to Polychord S.A. as the principal under the €35,000,000 Delta 1 Notes due 2028, issued by CSi.

The Bank registered a charge to Commonwealth Bank of Australia in relation to a security assignment. The amounts secured by the charge are all obligations (present, future or contingent) to deliver the Shares in accordance with the terms of the 1992 ISDA Master Agreement (Multicurrency-Cross Border) and any claims, awards and judgments against CSi as a result of a breach by CSi of any of those obligations.

The Bank registered a charge in relation to the 1992 ISDA Master Agreement (Multicurrency-Cross Border), the schedule and the 1994 Credit Support Annex dated as of 22 September 2008 between Credit Suisse and Highbridge Leveraged Loan Partners Master Fund, L.P. governed by the laws of the State of New York and as amended by an Amendment Agreement dated as of 25 September 2008. The amounts secured by the mortgage or charge are all present and future obligations of CSi under the agreement.

The Bank registered a charge to CTF Holdings Limited for obligations under a deed of charge in respect of Shares dated 29 July.

The Bank registered a charge to Credito Emiliano SpA in relation to a securities account. CSi is obligated to pay the Secured Party the forward sale price and any other payment to be made on the forward sale date in accordance with the terms of the forward sale agreement dated 29 July 2008.

The Bank registered a Charge to Caledonian Trust (Cayman) Ltd acting solely in its capacity as trustee of Magnitude International, a sub trust of The Magnitude Master Series Trust for obligations under the Letter Agreement dated 31 July 2007 as continuing security for payment of secured obligations.

The Bank registered a fixed charge to Naganoken Shinyo Nogyo Kyodo Kumiai Rengokai for obligations arising under the Finance Documents and all direct legal and other costs associated with the amount secured by the mortgage.

The Bank registered a fixed charge to Etera Mutual Pension Insurance Company for obligations under the Deed of Fixed Charge associated with the 82,000 Class B Participating Certificates of Solon Capital Limited.

The Bank registered a charge to Credit Suisse Solutions (Lux) for obligations under the Credit Support Deed and the 1992 ISDA Master Agreement dated as of 18 March 2008 for a US$13M Swap due in 2023 linked to the performance of the Credit Suisse Tremont All Hedge Index.

The Bank registered a charge to Credit Suisse Solutions (Lux) under a Euroclear Pledge Agreement entered into between Credit Suisse Solutions (Lux) and CSSEL, acting as the Pledgee's representative for all present and future moneys, debts, obligations and liabilities due, owing or incurred in connection with the Swap Arrangements.

The Bank registered a Deed of Amendment to Credit Suisse Fund Management S.A. for obligations under the charge registered on 3 October 2007 in terms of the Credit Support Deed and the 2002 ISDA Master Agreement for

**32. Guarantees and Commitments (continued)**

EUR400m funded swap due in 2022 that is linked to the performance of the MACS Total Return portfolio.

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

The Bank registered a charge to Credit Suisse Fund Management S.A. for obligations under the Credit Support Deed and the 2002 ISDA Master Agreement for a EUR400m funded swap due in 2022 that is linked to the performance of the MACS Total Return Portfolio.

The Bank registered a charge to Credit Suisse Fund Management S.A. under a Euroclear Pledge Agreement entered into between Credit Suisse Fund Management S.A. and CSSEL, acting as the Pledgee's representative for all present and future debts, obligations, moneys and liabilities under transaction documents and under the Pledge Agreement.

The Bank registered a charge to Panama Street Finance over collateral, as continuing security for payment of secured obligations.

The Bank has granted a first priority pledge to Intesa Sanpaolo S.p.A. over the Sale Back price and any other payment in accordance with the terms of the Buy and Sell Back Agreement.

The Bank registered a charge to the Bank of New York over all principal, interest and other amounts that may be payable under the obligations of the trust deed associated with US$400M loan participation notes.

The Bank registered a further charge to BNY Corporate Trustee Services Limited over all principal, interest and other amounts payable by the Bank under the obligations of the supplemental trust deed between the Bank and BNY Corporate Trustee Services Limited associated with US$30M loan participation notes.

The Bank registered a charge to Deutsche Trustee Company Limited over all principal, interest and other amounts that may be payable under the obligations of the trust deed associated with the US$125M loan participation notes.

The Bank registered a charge to Caledonian Trust (Cayman) Limited for principal, interest and other amounts associated with its purchase of the Magnitude Master Fund linked Investments Notes of Sterling GBP20M.

The Bank has granted to Morgan Guaranty Trust Company of New York, as operator of the Euroclear System, charges over cash and securities held in the account of the Bank at Euroclear.

The Bank has granted to the Bank of New York a charge over certain cash and securities against a failure of the Bank to meet certain obligations.

The Bank has granted a further charge to the Bank of New York over all principal, interest and other amounts payable by the Bank under the obligations of the trust deed between the Bank and the Bank of New York. The charge is secured to a limit of US$250M.

The Bank has granted a charge to HSBC Bank Plc as settlement bank over certain receivables in respect of the Bank's membership of CREST. This is a first floating charge over all eligible stock and other sums due to the Bank against the failure of the Bank to meet its obligations under the Settlement Bank Facility agreement.

The Bank has granted a charge to HSBC Bank Plc over certain receivables in respect of the Bank's membership of CREST. This is a first charge over all eligible stock and other sums due to the Bank against the failure of the Bank to meet its obligations under the Settlement Bank Facility agreement with HSBC Bank Plc.

The Bank has granted to the International Bank for Reconstruction and Development, International Finance Corporation and Ace Capital Re Overseas Limited charges over certain cash and securities due as collateral to the charges under the terms of the credit support annexes to their respective ISDA Master Agreements.

**32. Guarantees and Commitments (continued)**

The Bank has granted to Credit Suisse a charge over certain shares, dividends, interest and related share rights against a failure of the Bank to meet certain intra-group obligations.

The Bank has granted various fixed charges to J.P. Morgan Corporate Trustee Services Limited over all principal, interest and other amounts payable by the Bank to J.P. Morgan Corporate Trustee Services Limited under the obligations of the trust deed between the Bank and J.P. Morgan Corporate Trustee Services Limited. The charge is secured to a limit of US$1,115M.

The Bank has granted charges over a revolving credit facility to Credit Suisse, London Branch, against a failure of the Bank to meet certain intra-group obligations.

The Bank has granted a charge to Deutsche Trustee Company Limited over certain interests and benefits on notes. This is a first fixed charge on interest and any other amounts payable by the Bank under the loan agreement. The charge is limited to US$500M.

The Bank has granted charges to the Apothekerversorgung Niedersachsen Einrichtung der Apothekerkammer Niedersachsen Korperschaft des Offentlichen Rechts over certain property. This is a first fixed charge over the property and a floating charge over derivatives of the asset. The charges are secured to a limit of EUR35m.

The Bank has granted charges to the Arzteversorgung Niedersachsen Einrichtung der Arztekammer Niedersachsen Korperschaft des Offentlichen Rechts over certain property. This is a first fixed charge over the property and a floating charge over derivatives of the asset. The charges are secured to a limit of EUR65m.

The Bank has granted a fixed charge to Credito Emiliano S.p.A. over a charge account with Clearstream Banking S.A. for the purpose of maintaining collateral in favour of Credito Emiliano S.p.A.

The Bank has granted a charge and assignment of shares to OM-IP Eclipse Trading Limited over a charge account with RMF Investment Strategies SPC.

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

**33. Securitisations and Special Purpose Entities and Other Structured Transactions**

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

**SPE exposures as at the end of 2010 are as follows:**

| | 2010 US$M | 2009 US$M |
|---|---|---|
| **Consolidated SPEs** | | |
| CDO | 741 | 107 |
| Financial intermediation | 2,346 | 1,676 |
| **Total assets of consolidated SPEs (excluding those held with bank)** | **3,087** | **1,783** |

| | 2010 US$M | 2009 US$M |
|---|---|---|
| **Non-consolidated SPEs** | | |
| CDO | 8,347 | 8,168 |
| Financial intermediation | 30,623 | 48,186 |
| **Total assets of non-consolidated SPEs** | **38,970** | **56,354** |
| **Total maximum exposure to loss of non-consolidated SPEs** | | |
| CDO | 786 | 923 |
| Financial intermediation | 6,743 | 7,997 |

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

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

| Group | 2010 US$M | 2009 US$M |
|---|---|---|
| **Assets** | | |
| Cash and due from banks | 170 | 233 |
| Repossessed collateral | - | 34 |
| Other financial assets designated at fair value through profit or loss | 92 | 683 |
| Trading assets | 2,338 | 2,239 |
| Investment property | 666 | - |
| Current tax assets | 83 | 20 |
| Other assets | 1 | 1 |
| **Total assets** | **3,350** | **3,210** |
| **Liabilities** | | |
| Deposits | 192 | 207 |
| Securities sold under resale agreements and securities lending transactions | - | 703 |
| Trading liabilities | 754 | 935 |
| Short term borrowings | 27 | - |
| Other financial liabilities designated at fair value through profit or loss | 2,283 | 933 |
| Share capital | 88 | 413 |
| Other liabilities | 6 | 19 |
| **Total liabilities** | **3,350** | **3,210** |

### 34. 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 Group's financial instruments is based on quoted prices in active markets or observable inputs. These instruments include government and agency securities, certain CP, most investment grade corporate debt, certain high yield debt securities, exchange-traded and certain OTC derivative instruments and most listed equity securities.

In addition, the Group holds financial instruments for which no prices are available and which have little or no observable inputs. Further deterioration of financial markets could significantly impact the value of these financial instruments and the results of operations. For these instruments, the determination of fair value requires subjective assessment and varying degrees of judgment, depending on liquidity, concentration, pricing assumptions, the current economic and competitive environment and the risks affecting the specific instrument. In such circumstances, valuation is determined based on management's own assumptions about the assumptions that market participants would use in pricing the asset or liability, including assumptions about risk. These instruments include certain OTC derivatives, 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) is considered when measuring the fair value of assets and the impact of changes in the Group's own credit spreads (known as debit valuation adjustments) is considered when measuring the fair value of its liabilities. For OTC derivatives, the impact of changes in both the 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 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 Group's credit standing is considered when measuring their fair value, based on current funded debt 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 quotes prices included within Level 1 that are observable for the asset or liabilities, either directly (i.e. as prices) or indirectly (i.e. derived from prices).
- Level 3: Inputs for the asset or liability that is not based on observable market data (unobservable inputs).

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

**Qualitative disclosures of valuation techniques**

**Money market instruments**

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

**34. Financial Instruments (continued)**

**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 judgment. For those securities where the price or model inputs are observable in the market they are categorised as Level 2 instruments, while those securities where prices are not observable and significant model inputs are unobservable they are categorised as Level 3.

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

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

***CMBS, RMBS and ABS/CDO structures***
Values of RMBS, CMBS and other ABS may be available through quoted prices, which are often based on the prices at which similarly structured and collateralised securities trade between dealers and to and from customers. Values of RMBS, CMBS and other ABS for which there are no significant observable inputs are valued using benchmarks to similar transactions or indices and other valuation models.

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

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

**Equity securities**

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

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

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

**Derivatives**

Derivatives held for trading purposes or used in hedge accounting relationships include both OTC and exchange traded derivatives. The fair values of exchange-traded derivatives measured using observable exchange prices are included in Level 1 of the fair value hierarchy. Some observable exchange prices may not be considered executable at the reporting date and may have been adjusted for liquidity concerns. For those instruments where liquidity

**34. Financial Instruments (continued)**

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 modeling assumptions. Examples of such specific unobservable inputs include long-dated volatility assumptions on OTC option transactions and recovery rate assumptions for credit derivative transactions.

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

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

***Interest rate derivatives***
OTC vanilla interest rate products, such as interest rate swaps, swaptions, and caps and floors are valued by discounting the anticipated future cash flows. The future cash flows and discounting are derived from market standard yield curves and industry standard volatility inputs. Where applicable, exchange-traded prices are also used to value exchange traded futures and options and can be used in yield curve construction. For more complex products, inputs include, but are not limited to basis swap spreads, constant maturity convexity adjustments, constant maturity treasury spreads, inflation index correlations, inflation seasonality, single and quanto interest rate correlations, cross asset correlations, mean reversion, serial correlation and conditional prepayment rate assumptions.

***Foreign exchange derivatives***
Foreign exchange derivatives include vanilla products such as spot, forward and option contracts where the anticipated discounted future cash flows are determined from foreign exchange forward curves and industry standard optionality modeling techniques. Where applicable, exchange traded prices are also used for futures and option prices. For more complex products inputs include, but are not limited to 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 CDS 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 rate. These input parameters are generally implied from available market observable data.

**34. Financial Instruments (continued)**

***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, FX-commodity correlation, commodity forward rate curves, spot prices, commodity volatility and the yield curve. 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.

***Other alternative capital investments***
Other long-term investments include direct investments and investments in partnerships that make investments in various portfolio companies and funds.

Internally managed funds include partnerships and related direct investments for which the Group acts as the fund advisor and makes investment decisions. Internally managed funds principally invest in private securities and, to a lesser extent, publicly traded securities and fund of funds partnerships. The fair value of investments in internally managed fund of funds partnerships is based on the valuation received from the underlying fund manager and is reviewed by the Group. The fair value of investments in other internally managed funds is based on the Group's valuation. Funds managed by third parties include investments in funds managed by an external fund manager. The fair value of these funds is based on the valuation received from the general partner of the fund and is reviewed by the Group. Alternative investments are classified as Level 3.

**Loans**

The Group's loan portfolio measured at fair value includes commercial loans, residential loans, corporate loans, leveraged financed loans and emerging market loans. Fair value is based on recent transactions and quoted prices, where available. Where recent transactions and quoted prices are not available, fair value may be determined by relative value benchmarking (which includes pricing based upon another position in the same capital structure, other comparable loan issues, generic industry credit spreads, implied credit spreads derived from CDS for the specific borrower, and enterprise valuations) or calculated based on the exit price of the collateral, based on current market conditions. Both the funded and unfunded portion of revolving credit lines, on the corporate lending portfolio, are valued using a CDS pricing model, which requires estimates of significant inputs including credit spreads, recovery rates, credit conversion factors, and weighted average life of the loan. The Group's other assets and liabilities include mortgage loans held in conjunction with securitisation activities and assets and liabilities of SPEs and mortgage securitisations that do not meet the criteria for sale treatment under IFRS. The fair value of mortgage loans held in conjunction with securitisation activities is determined on a whole-loan basis. Whole loan valuations are calculated based on the exit price reflecting the current market conditions. The fair value of assets and liabilities of SPEs and mortgage securitisations that do not meet the criteria for sale treatment under IFRS is determined based on the quoted prices for securitised bonds, where available, or on cash flow analyses for securitised bonds, when quoted prices are not available. All loans are classified as Level 2 and 3.

**Short-term borrowings and long-term debt**

The 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 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 Group's own credit spread. The majority of Short term Borrowings are categorised as Level 2. The majority of long-term debt are categorised as Levels 2 and 3.

**34. Financial Instruments (continued)**

**Financial assets and liabilities by categories**

The following table details the fair value of financial instruments for which it is practicable to estimate that value, whether or not this is reported in the Group's financial statements. All non-financial instruments such as lease transactions, intangible assets, investment property, and investment in subsidiaries are excluded.

**31 December 2010**

| **Group** | **Fair value** | **Carrying value** | | | |
|---|---|---|---|---|---|
| | | Held for trading | Designated at fair value | Other loans and receivables | Total |
| | **US$M** | **US$M** | **US$M** | **US$M** | **US$M** |
| **Financial Assets** | | | | | |
| Cash and due from banks | 20,863 | - | - | 20,863 | 20,863 |
| Interest-bearing deposits with banks | 127 | - | - | 127 | 127 |
| Securities purchased under resale agreements and securities borrowing transactions | 16,132 | - | - | 16,132 | 16,132 |
| Trading financial assets at fair value through profit or loss | 459,890 | 459,890 | - | - | 459,890 |
| Financial assets designated at fair value through profit or loss | 24,479 | - | 24,479 | - | 24,479 |
| Other loans and receivables | 5,683 | - | - | 5,519 | 5,519 |
| Other investments | 36 | - | - | 36 | 36 |
| Other assets | 47,811 | - | - | 47,811 | 47,811 |
| **Total financial assets** | **575,021** | **459,890** | **24,479** | **90,488** | **574,857** |

| **31 December 2010** | **Fair value** | **Carrying value** | | | |
|---|---|---|---|---|---|
| **Group** | | Held for trading | Designated at fair value | Other amortised cost | Total |
| | **US$M** | **US$M** | **US$M** | **US$M** | **US$M** |
| **Financial Liabilities** | | | | | |
| Deposits | 2,733 | - | - | 2,733 | 2,733 |
| Securities sold under repurchase agreements and securities lending transactions | 7,885 | - | - | 7,885 | 7,885 |
| Trading financial liabilities at fair value through profit or loss | 434,579 | 434,579 | - | - | 434,579 |
| Financial liabilities designated at fair value through profit or loss | 34,142 | - | 34,142 | - | 34,142 |
| Short term borrowings | 19,024 | _ | - | 19,024 | 19,024 |
| Long term debt | 29,006 | - | - | 30,429 | 30,429 |
| Other liabilities | 38,696 | - | - | 38,696 | 38,696 |
| **Total financial liabilities** | **566,065** | **434,579** | **34,142** | **98,767** | **567,488** |

**34. Financial Instruments (continued)**

**31 December 2009**

| Group | Fair value | Carrying value | | | |
|---|---|---|---|---|---|
| | | Held for trading | Designated at fair value | Other loans and receivables | Total |
| | US$M | US$M | US$M | US$M | US$M |
| **Financial Assets** | | | | | |
| Cash and due from banks | 19,130 | - | - | 19,130 | 19,130 |
| Interest-bearing deposits with banks | 255 | - | - | 255 | 255 |
| Securities purchased under resale agreements and securities borrowing transactions | 19,337 | - | - | 19,337 | 19,337 |
| Trading financial assets at fair value through profit or loss | 459,520 | 459,520 | - | - | 459,520 |
| Financial assets designated at fair value through profit or loss | 29,681 | - | 29,681 | - | 29,681 |
| Other loans and receivables | 6,188 | - | - | 6,234 | 6,234 |
| Other assets | 41,588 | - | - | 41,856 | 41,856 |
| **Total financial assets** | **575,699** | **459,520** | **29,681** | **86,812** | **576,013** |

| 31 December 2009<br>Group | Fair value | Carrying value | | | |
|---|---|---|---|---|---|
| | | Held for trading | Designated at fair value | Other amortised cost | Total |
| | US$M | US$M | US$M | US$M | US$M |
| **Financial Liabilities** | | | | | |
| Deposits | 2,231 | - | - | 2,231 | 2,231 |
| Securities sold under repurchase agreements and securities lending transactions | 4,120 | - | - | 4,120 | 4,120 |
| Trading financial liabilities at fair value through profit or loss | 437,653 | 437,653 | - | - | 437,653 |
| Financial liabilities designated at fair value through profit or loss | 43,071 | - | 43,071 | - | 43,071 |
| Short term borrowings | 28,036 | - | - | 28,038 | 28,038 |
| Long term debt | 11,258 | - | - | 12,788 | 12,788 |
| Other liabilities (restated) | 40,199 | - | - | 40,199 | 40,199 |
| **Total financial liabilities** | **566,568** | **437,653** | **43,071** | **87,376** | **568,100** |

**34. Financial Instruments (continued)**

| **31 December 2010**<br>**Bank** | **Fair value** | **Carrying value** | | | |
|---|---|---|---|---|---|
| | | Held for trading | Designated at fair value | Other loans and receivables | Total |
| | **US$M** | **US$M** | **US$M** | **US$M** | **US$M** |
| **Financial Assets** | | | | | |
| Cash and due from banks | 20,691 | - | - | 20,691 | 20,691 |
| Interest-bearing deposits with banks | 110 | - | - | 110 | 110 |
| Securities purchased under resale agreements and securities borrowing transactions | 16,132 | - | - | 16,132 | 16,132 |
| Trading financial assets at fair value through profit or loss | 460,829 | 460,829 | - | - | 460,829 |
| Financial assets designated at fair value through profit or loss | 26,276 | - | 26,276 | - | 26,276 |
| Other loans and receivables | 5,683 | - | - | 5,519 | 5,519 |
| Other assets | 49,334 | - | - | 49,334 | 49,334 |
| **Total financial assets** | **579,055** | **460,829** | **26,276** | **91,786** | **578,891** |

| **31 December 2010**<br>**Bank** | **Fair value** | **Carrying value** | | | |
|---|---|---|---|---|---|
| | | Held for trading | Designated at fair value | Other amortised cost | Total |
| | **US$M** | **US$M** | **US$M** | **US$M** | **US$M** |
| **Financial Liabilities** | | | | | |
| Deposits | 2,731 | - | - | 2,731 | 2,731 |
| Securities sold under repurchase agreements and securities lending transactions | 7,885 | - | - | 7,885 | 7,885 |
| Trading financial liabilities at fair value through profit or loss | 435,062 | 435,062 | - | - | 435,062 |
| Financial liabilities designated at fair value through profit or loss | 34,857 | - | 34,857 | | 34,857 |
| Short term borrowings | 19,262 | - | - | 19,262 | 19,262 |
| Long term debt | 28,986 | - | - | 30,410 | 30,410 |
| Other liabilities | 39,999 | - | - | 39,999 | 39,999 |
| **Total financial liabilities** | **568,782** | **435,062** | **34,857** | **100,287** | **570,206** |

**34. Financial Instruments (continued)**

**31 December 2009**

| **Bank** | **Fair value** | **Carrying value** | | | |
|---|---|---|---|---|---|
| | | Held for trading | Designated at fair value | Other loans and receivables | Total |
| | **US$M** | **US$M** | **US$M** | **US$M** | **US$M** |
| **Financial Assets** | | | | | |
| Cash and due from banks | 18,641 | - | - | 18,641 | 18,641 |
| Interest-bearing deposits with banks | 238 | - | - | 238 | 238 |
| Securities purchased under resale agreements and securities borrowing transactions | 19,337 | - | - | 19,337 | 19,337 |
| Trading financial assets at fair value through profit or loss | 459,560 | 459,560 | - | - | 459,560 |
| Financial assets designated at fair value through profit or loss | 29,924 | - | 29,924 | - | 29,924 |
| Other loans and receivables | 6,188 | - | - | 6,234 | 6,234 |
| Other assets | 43,053 | - | - | 43,321 | 43,321 |
| **Total financial assets** | **576,941** | **459,560** | **29,924** | **87,771** | **577,255** |

| **31 December 2009** | **Fair value** | **Carrying value** | | | |
|---|---|---|---|---|---|
| **Bank** | | Held for trading | Designated at fair value | Other amortised cost | Total |
| | **US$M** | **US$M** | **US$M** | **US$M** | **US$M** |
| **Financial Liabilities** | | | | | |
| Deposits | 2,195 | - | - | 2,195 | 2,195 |
| Securities sold under repurchase agreements and securities lending transactions | 4,120 | - | - | 4,120 | 4,120 |
| Trading financial liabilities at fair value through profit or loss | 437,986 | 437,986 | - | - | 437,986 |
| Financial liabilities designated at fair value through profit or loss | 42,727 | - | 42,727 | - | 42,727 |
| Short term borrowings | 28,299 | - | - | 28,300 | 28,300 |
| Long term debt | 11,258 | - | - | 12,788 | 12,788 |
| Other liabilities (restated) | 41,242 | - | - | 41,242 | 41,242 |
| **Total financial liabilities** | **567,827** | **437,986** | **42,727** | **88,645** | **569,358** |

Fair value of certain instruments recognised in the financial statements is determined in part using valuation techniques based on entity specific assumption that are not supported by prices from current market transactions or observable market data.

**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.

**34. Financial Instruments (continued)**

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

| As at 31 December 2010<br>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[1] | Total at fair value |
|---|---|---|---|---|---|
| | US$M | US$M | US$M | US$M | US$M |
| **Assets** | | | | | |
| Trading financial assets at fair value through profit or loss | 22,287 | 695,768 | 14,424 | (272,589) | 459,890 |
| Other financial assets designated at fair value through profit or loss | 3,741 | 15,151 | 5,587 | - | 24,479 |
| **Total assets at fair value** | **26,028** | **710,919** | **20,011** | **(272,589)** | **484,369** |
| **Liabilities** | | | | | |
| Trading financial liabilities at fair value through profit or loss | 15,147 | 680,914 | 11,062 | (272,544) | 434,579 |
| Other financial liabilities designated at fair value through profit or loss | - | 25,102 | 9,040 | - | 34,142 |
| **Total liabilities at fair value** | **15,147** | **706,016** | **20,102** | **(272,544)** | **468,721** |

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

| As at 31 December 2009<br>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[1] | Total at fair value |
|---|---|---|---|---|---|
| | US$M | US$M | US$M | US$M | US$M |
| **Assets** | | | | | |
| Trading financial assets at fair value through profit or loss | 16,649 | 687,147 | 16,576 | (260,852) | 459,520 |
| Other financial assets designated at fair value through profit or loss | 2,765 | 20,192 | 6,724 | - | 29,681 |
| **Total assets at fair value** | **19,414** | **707,339** | **23,300** | **(260,852)** | **489,201** |
| **Liabilities** | | | | | |
| Trading financial liabilities at fair value through profit or loss | 14,580 | 665,877 | 11,927 | (254,731) | 437,653 |
| Other financial liabilities designated at fair value through profit or loss | - | 30,042 | 13,029 | - | 43,071 |
| **Total liabilities at fair value** | **14,580** | **695,919** | **24,956** | **(254,731)** | **480,724** |

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

**34. Financial Instruments (continued)**

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

| **As at 31 December 2010**<br>**Bank** | **Quoted Prices in active markets for the same instruments (Level1 )**<br>**US$M** | **Valuation techniques observable inputs (Level 2)**<br>**US$M** | **Valuation techniques unobservable inputs (Level 3)**<br>**US$M** | **Impact of netting[1]**<br>**US$M** | **Total at fair value**<br>**US$M** |
|---|---|---|---|---|---|
| **Assets** | | | | | |
| Trading financial assets at fair value through profit or loss | 22,290 | 696,332 | 14,797 | (272,590) | 460,829 |
| Other financial assets designated at fair value through profit or loss | 3,741 | 16,944 | 5,591 | - | 26,276 |
| **Total assets at fair value** | **26,031** | **713,276** | **20,388** | **(272,590)** | **487,105** |
| **Liabilities** | | | | | |
| Trading financial liabilities at fair value through profit or loss | 15,147 | 681,397 | 11,062 | (272,544) | 435,062 |
| Other financial liabilities designated at fair value through profit or loss | - | 25,917 | 8,940 | - | 34,857 |
| **Total liabilities at fair value** | **15,147** | **707,314** | **20,002** | **(272,544)** | **469,919** |

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

| **As at 31 December 2009**<br>**Bank** | **Quoted Prices in active markets for the same instruments (Level1 )**<br>**US$M** | **Valuation techniques observable inputs (Level 2)**<br>**US$M** | **Valuation techniques unobservable inputs (Level 3)**<br>**US$M** | **Impact of netting[1]**<br>**US$M** | **Total at fair value**<br>**US$M** |
|---|---|---|---|---|---|
| **Assets** | | | | | |
| Trading financial assets at fair value through profit or loss | 16,578 | 686,826 | 17,008 | (260,852) | 459,560 |
| Other financial assets designated at fair value through profit or loss | 2,765 | 20,896 | 6,263 | - | 29,924 |
| **Total assets at fair value** | **19,343** | **707,722** | **23,271** | **(260,852)** | **489,484** |
| **Liabilities** | | | | | |
| Trading financial liabilities at fair value through profit or loss | 14,581 | 666,210 | 11,926 | (254,731) | 437,986 |
| Other financial liabilities designated at fair value through profit or loss | - | 30,419 | 12,308 | - | 42,727 |
| **Total liabilities at fair value** | **14,581** | **696,629** | **24,234** | **(254,731)** | **480,713** |

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

**34. Financial Instruments (continued)**

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

| As at 31 December 2010 | Trading revenues US$M | Other revenues US$M | Total revenues US$M |
|---|---|---|---|
| **Group** | | | |
| Net realised/unrealised gains/(losses) included in net revenues | (365) | - | (365) |
| Whereof: | | | |
| Changes in unrealised gains or losses relating to assets and liabilities still held as of the reporting date | (2,211) | - | (2,211) |

| As at 31 December 2009 | Trading revenues US$M | Other revenues US$M | Total revenues US$M |
|---|---|---|---|
| **Group** | | | |
| Net realised/unrealised gains/(losses) included in net revenues | 1,117 | (71) | 1,046 |
| Whereof: | | | |
| Changes in unrealised gains or losses relating to assets and liabilities still held as of the reporting date | (1,107) | - | (1,107) |

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

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

**34. Financial Instruments (continued)**

**Assets and liabilities measured at fair value on a recurring basis for Level 3 (in US$M)**

| **As at 31 December 2010** | Balance at beginning of period | Transfers in | Transfers out | Purchases | Sales | Issuances | Settlement | Trading revenues | | Other revenues | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| **Group Assets** | | | | | | | | On transfers in[1]/out | On all others | On transfers in / out | On all others | **Balance at end of period** |
| Trading financial assets at fair value through profit or loss | 16,576 | 3,497 | (2,111) | 2,502 | (4,857) | 31 | (2,081) | 202 | 665 | - | - | 14,424 |
| Other financial assets designated at fair value through profit or loss | 6,724 | 1,093 | (263) | 111 | (975) | 219 | (1,257) | (2) | (63) | - | - | 5,587 |
| **Total assets at fair value** | **23,300** | **4,590** | **(2,374)** | **2,613** | **(5,832)** | **250** | **(3,338)** | **200** | **602** | **-** | **-** | **20,011** |
| **Liabilities** | | | | | | | | | | | | |
| Trading financial liabilities at fair value through profit or loss | 11,927 | 2,183 | (2,131) | (460) | 27 | 387 | (1,883) | 226 | 786 | - | - | 11,062 |
| Other financial liabilities designated at fair value through profit or loss | 13,029 | 1,060 | (1,942) | (1,866) | 389 | 413 | (2,198) | (50) | 205 | - | - | 9,040 |
| **Total liabilities at fair value** | **24,956** | **3,243** | **(4,073)** | **(2,326)** | **416** | **800** | **(4,081)** | **176** | **991** | **-** | **-** | **20,102** |
| **Net assets/liabilities at fair value** | **(1,656)** | **1,347** | **1,699** | **4,939** | **(6,248)** | **(550)** | **743** | **24** | **(389)** | **-** | **-** | **(91)** |

For all transfers to Level 3 or out of Level 3, the 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 (in US$M)**

| **As at 31 December 2009** | Balance at beginning of period | Transfers in | Transfers out | Purchases | Sales | Issuances | Settlement | Trading revenues | | Other revenues | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| **Group Assets** | | | | | | | | On transfers in / out | On all others | On transfers in | On all others | **Balance at end of period** |
| Trading financial assets at fair value through profit or loss | 43,427 | 5,392 | (14,336) | 2,795 | (12,188) | 1,588 | (11,174) | (901) | 1,973 | - | - | 16,576 |
| Financial assets designated at fair value through profit or loss | 9,498 | 144 | (1,024) | 2,122 | (3,094) | 6,404 | (8,349) | 124 | 899 | - | - | 6,724 |
| **Total assets at fair value** | **52,925** | **5,536** | **(15,360)** | **4,917** | **(15,282)** | **7,992** | **(19,523)** | **(777)** | **2,872** | **-** | **-** | **23,300** |
| **Liabilities** | | | | | | | | | | | | |
| Trading financial liabilities at fair value through profit or loss | 26,804 | 3,859 | (10,056) | (1,093) | 606 | 2,593 | (11,290) | (621) | 1,054 | - | 71 | 11,927 |
| Other financial liabilities designated at fair value through profit or loss | 21,073 | 585 | (2,882) | (5,875) | 4,957 | 7,094 | (12,468) | 800 | (255) | - | - | 13,029 |
| **Total liabilities at fair value** | **47,877** | **4,444** | **(12,938)** | **(6,968)** | **5,563** | **9,687** | **(23,758)** | **179** | **799** | **-** | **71** | **24,956** |
| **Net assets/liabilities at fair value** | **5,048** | **1,092** | **(2,422)** | **11,885** | **(20,845)** | **(1,695)** | **4,235** | **(956)** | **2,073** | **-** | **(71)** | **(1,656)** |

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

### 34. Financial Instruments (continued)

#### Assets and liabilities measured at fair value on a recurring basis for Level 3 (in US$M)

| **As at 31 December 2010** | Balance at | Transfers | Transfers | Purchases | Sales | Issuances | Settlement | Trading revenues | | Other revenues | | **Balance at** |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| **Bank Assets** | beginning of period | in | out | | | | | On transfers in[1]/out | On all others | On transfers in /out | On all others | **end of period** |
| Trading financial assets at fair value through profit or loss | 17,008 | 3,497 | (2,111) | 2,769 | (5,182) | 30 | (2,081) | 202 | 665 | - | - | 14,797 |
| Other financial assets designated at fair value through profit or loss | 6,263 | 1,093 | (263) | 115 | (514) | 219 | (1,257) | (2) | (63) | - | - | 5,591 |
| **Total assets at fair value** | **23,271** | **4,590** | **(2,374)** | **2,884** | **(5,696)** | **249** | **(3,338)** | **200** | **602** | **-** | **-** | **20,388** |
| **Liabilities** | | | | | | | | | | | | |
| Trading financial liabilities at fair value through profit or loss | 11,926 | 2,183 | (2,131) | (460) | 28 | 387 | (1,883) | 226 | 786 | - | - | 11,062 |
| Other financial liabilities designated at fair value through profit or loss | 12,308 | 1,060 | (1,942) | (803) | (41) | 389 | (2,198) | (50) | 217 | - | - | 8,940 |
| **Total liabilities at fair value** | **24,234** | **3,243** | **(4,073)** | **(1,263)** | **(13)** | **776** | **(4,081)** | **176** | **1,003** | **-** | **-** | **20,002** |
| **Net assets/liabilities at fair value** | **(963)** | **1,347** | **1,699** | **4,147** | **(5,683)** | **(527)** | **743** | **24** | **(401)** | **-** | **-** | **386** |

For all transfers to Level 3 or out of Level 3, the 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 (in US$M)

| **As at 31 December 2009** | Balance at | Transfers | Transfers | Purchases | Sales | Issuances | Settlement | Trading revenues | | Other revenues | | **Balance at** |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| **Bank Assets** | beginning of period | in | out | | | | | On transfers in / out | On all others | On transfers in /out | On all others | **end of period** |
| Trading financial assets at fair value through profit or loss | 43,427 | 5,392 | (14,336) | 3,194 | (11,763) | 1,588 | (11,174) | (920) | 1,600 | - | - | 17,008 |
| Other financial assets designated at fair value through profit or loss | 9,498 | 144 | (1,024) | 1,661 | (3,094) | 6,404 | (8,349) | 124 | 899 | - | - | 6,263 |
| **Total assets at fair value** | **52,925** | **5,536** | **(15,360)** | **4,855** | **(14,857)** | **7,992** | **(19,523)** | **(796)** | **2,499** | - | - | **23,271** |
| **Liabilities** | | | | | | | | | | | | |
| Trading financial liabilities at fair value through profit or loss | 26,804 | 3,859 | (10,056) | (1,071) | 584 | 2,593 | (11,291) | (621) | 1,054 | - | 71 | 11,926 |
| Other financial liabilities designated at fair value through profit or loss | 21,073 | 585 | (2,882) | (7,198) | 5,055 | 5,430 | (10,287) | 800 | (268) | - | | 12,308 |
| **Total liabilities at fair value** | **47,877** | **4,444** | **(12,938)** | **(8,269)** | **5,639** | **8,023** | **(21,578)** | **179** | **786** | - | 71 | **24,234** |
| **Net assets/liabilities at fair value** | **5,048** | **1,092** | **(2,422)** | **13,124** | **(20,496)** | **(31)** | **2,055** | **(975)** | **1,713** | - | **(71)** | **(963)** |

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

**34. Financial Instruments (continued)**

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

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

| **Group** | **As at 31 December 2010** | | **As at 31 December 2009** | |
|---|---|---|---|---|
| **Impact on net income/(loss)** | **Favourable changes** | **Unfavourable changes** | **Favourable changes** | **Unfavourable changes** |
| Derivative assets and liabilities | 303 | (295) | 440 | (242) |
| Asset backed securities, loans and derivatives | 173 | (122) | 152 | (125) |
| Debt and equity securities | 171 | (116) | 140 | (123) |
| Loans | 106 | (87) | 49 | (49) |
| Life insurance products | 1 | (1) | - | - |
| **Total** | **754** | **(621)** | **781** | **(539)** |

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

Derivative assets and liabilities include primarily equity, credit and interest rate derivatives. The primary parameters subjected to sensitivity analysis included correlations, volatilities and credit spreads. Correlation sensitivities for equity and interest rate positions were subjected to equal movements up and down, capped at 100% and floored at 0%. The movements varied by product and existing levels of correlation based upon management judgment. Volatility sensitivities are predominantly equity volatilities that are subjected to a 2% movement up and down. Credit spread sensitivities were subjected to generally equal movements up and down based upon management judgment.

Asset backed securities, loans and derivatives include CMBS, RMBS and ABS CDO positions. CMBS sensitivities are calculated by subjecting the prices of the positions to a 5% movement up and down. ABS CDO positions were subjected to sensitivities to underlying asset prices, as well as correlations between and recovery rates on the underlying assets. The underlying asset prices were subjected to a range of downward movements ranging from 10% to 30% with no movement up. Correlations and recovery rates are held at what management believes to be conservative levels. Correlations were reduced between 7% and 22% resulting in favourable uncertainty. Recovery rates were increased between 10% and 25% resulting in favourable uncertainty. RMBS positions were subjected to sensitivities on prepayment speeds which were estimated as one standard deviation of historical prepayments movement up and down.

Debt and equity securities include equity fund linked products, variable funding notes and corporate and emerging market bonds. The primary parameters subjected to sensitivity analysis for equity fund linked products and variable funding notes include gap risk and secondary market reserves. Gap risk sensitivity is estimated by using limited pricing service information and valuing to the conservative side of the range of values. The secondary market reserve parameter is generally subject to a 20% movement up and down. The parameter subjected to sensitivity for emerging market and corporate debt is credit spreads. Emerging market positions are subjected to a 100 basis point movement up and down, while corporate debt positions are subjected to movements up and down ranging from 7% to 15% of the current credit spread.

Loans include emerging market loans and corporate loans. For emerging market loans the parameter subjected to sensitivity analysis is credit spreads which is subjected to a 100 basis point movement up and down. For corporate loans the parameter subjected to sensitivity analysis is the loan price which is subjected to an equal movement up and down which ranges from 5 to 10 points depending upon the position.

Life insurance products include life expectancy related contracts where the parameter subjected to sensitivity analysis is mortality rates. The sensitivity amount is based upon an equal movement up and down of 6 months.

**34. Financial Instruments (continued)**

As mentioned above, the sensitivities applied to the unobservable parameters are in all cases dependent upon management judgment 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.

The Group records net open positions at bid prices if long, or at ask prices if short. Fair value measurements are not adjusted for transactions costs.

In addition, the Group holds financial instruments for which no prices are available and which have little or no observable inputs. Further deterioration of financial markets could significantly impact the value of these financial instruments and the results of operations. For these instruments, the determination of fair value requires subjective assessment and varying degrees of judgment, depending on liquidity, concentration, pricing assumptions, the current economic and competitive environment and the risks affecting the specific instrument. In such circumstances, valuation is determined based on management's own assumptions about the assumptions that market participants would use in pricing the asset or liability, including assumptions about risk. These instruments include certain OTC derivatives, 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.

Fair value for the Company also includes model valuation adjustments. Such adjustments take account of any model limitations which may include additional model factors or uncertainties and are used to calibrate the carrying value to fair value.

**Recognition of trade date profit**

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

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

| **Group and Bank** | **2010 US$M** | **2009 US$M** |
|---|---|---|
| **Deferred trade date profit** | | |
| Balance at the beginning of period | 505 | 585 |
| Increase due to new trades | 276 | 321 |
| Reduction due to passage of time | (32) | (65) |
| Reduction due to redemption, sales, transfers or improved observability | (274) | (336) |
| **Total** | **475** | **505** |

The fair value includes valuation adjustments such as bid offer spread reserves, day 1 reserves, model imperfections and market credit risk provisions. Valuation adjustments are an integral part of the valuation process when market prices are not indicative of the credit quality of counterparty, and are applied to both OTC derivatives and debt instruments. The impact of changes in counterparty's credit spreads is considered when measuring the fair value of assets and the impact of changes in the Group's own credit spreads is considered when measuring the fair value of its liabilities. For OTC derivatives, the impact of changes in both the Group's and the counterparty's credit standing is considered when measuring their fair value, based on current credit default swap prices.

**34. Financial Instruments (continued)**

**Transfers between Level 1 and 2**

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

| As at 31 December 2010 | Group 2010 US$M | Group 2009 US$M | Bank 2010 US$M | Bank 2009 US$M |
|---|---|---|---|---|
| **Assets** | | | | |
| Trading financial assets at fair value through profit or loss | 114 | 161 | 114 | 161 |
| **Total transfers in assets at fair value** | **114** | **161** | **114** | **161** |
| **Liabilities** | | | | |
| Trading financial liabilities at fair value through profit or loss | 7 | 3 | 7 | 3 |
| **Total transfers in liabilities at fair value** | **7** | **3** | **7** | **3** |

The reasons for the transfers from Level 1 to Level 2 in 2010 were as follows:

Trading financial assets at fair value through profit or loss:
The transfers from Level 1 to Level 2 are mainly driven by trading securities where the stocks had decreased liquidity and subsequently lacked pricing transparency.

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

| As at 31 December 2010 | Group 2010 US$M | Group 2009 US$M | Bank 2010 US$M | Bank 2009 US$M |
|---|---|---|---|---|
| **Assets** | | | | |
| Trading financial assets at fair value through profit or loss | 1,307 | 26 | 1,307 | 26 |
| **Total transfers in assets at fair value** | **1,307** | **26** | **1,307** | **26** |
| **Liabilities** | | | | |
| Trading financial liabilities at fair value through profit or loss | 1,445 | - | 1,445 | - |
| **Total transfers in liabilities at fair value** | **1,445** | **-** | **1,445** | **-** |

The reasons for the transfers from Level 2 to Level 1 in 2010 were as follows:

Trading financial assets at fair value through profit or loss:
The transfer from Level 2 to Level 1 are mainly driven by the index listed options (EURO STOXX, FTSE and DAX-Indices) whose maturities have moved into the less than six months range in last quarter of 2010. As a result, these balances have been moved to Level 1 from Level 2, on the basis of its residual maturity being within a period less than 6 months.

**35. Assets Pledged or Assigned**

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

| **Group and Bank** | **Group 2010 US$M** | **Group 2009 US$M** | **Bank 2010 US$M** | **Bank 2009 US$M** |
|---|---|---|---|---|
| **Assets pledged or assigned** | | | | |
| Trading financial assets at fair value through profit or loss | 29,860 | 36,637 | 29,860 | 36,637 |
| **Collateral received** | | | | |
| Fair value of collateral received with the right to resell or repledge | 29,860 | 36,637 | 29,860 | 36,637 |
| Of which sold or repledged | 21,195 | 21,044 | 21,195 | 21,044 |

As at 31 December 2010 and 2009, collateral was received in connection with resale agreements, securities borrowings and loans, derivative transactions and margined broker loans. As at these dates, a substantial portion of the collateral received by the Group had been sold or repledged in connection with repurchase agreements, securities sold not yet purchased, securities borrowed and lent, pledges to clearing organisations, segregation requirements under securities laws and regulations, derivative transactions and bank loans.

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

Additional charges are included in Note 32-Guarantees and Commitments.

**36. Derecognition**

In the normal course of business, the Group enters into transactions in which it transfers previously recognised financial assets, such as debt securities, equity securities and other financial instruments. The Group's accounting policy regarding derecognition of such assets under IAS 39 is described in Note 2- Significant Accounting Policies. The Group's and our client's investing or financing needs determines whether derecognition of the transferred assets under IAS 39 applies. Certain transactions may be structured to include provisions that prevent derecognition and the transfers are accounted for as secured financing transactions. Repurchase agreements, securities lending agreements and total return swaps, in which the Group retains substantially all of the associated credit, market, interest rate and foreign exchange risks and rewards associated with the assets, represent the most common examples of such transactions. The following table provides details of financial assets which have been sold or otherwise transferred, but which did not qualify for derecognition, together with their associated liabilities.

| **Group and Bank** | **2010 US$M** | **2009 US$M (restated)** |
|---|---|---|
| **Carrying amount of transferred assets** | | |
| Financial assets not derecognised due to the following transactions: | | |
| Repurchase agreements | 11,436 | 14,546 |
| Securities lending agreements | 7,902 | 5,460 |
| Total return swaps | 1,739 | 1,797 |
| Other | 2,727 | 3,577 |
| **Total carrying amount of transferred assets not derecognised** | **23,804** | **25,380** |
| **Total carrying amount of associated liabilities** | **23,952** | **25,213** |

The assets not derecognised are included in Note 13-Securities Borrowed, Lent and Subject to Resale Agreements and corresponding liabilities in Note 17-Other Assets and Other Liabilities.

Of the above, other financial assets not derecognised includes failed sales items including fair value elected which are shown under financial assets designated at fair value through profit or loss in Consolidated Statements of Financial Position.

## 37. 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. CS group defines its market risk as potential changes in the fair values of financial instruments in response to market movements. A typical transaction may be exposed to a number of different market risks.

CS group devotes considerable resources to ensuring 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 CS group level down to specific portfolios. CS group uses market risk measurement and management methods designed to meet or exceed industry standards. These include general tools capable of calculating comparable exposures across CS group's many activities and focused tools that can specifically model unique characteristics of certain instruments or portfolios. The tools are used for internal market risk management, internal market risk reporting and external disclosure purposes. The principal measurement methodologies are value-at-risk ('VaR') and scenario analysis. Additionally, CS group'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. CS 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.

CS group uses a historical simulation model for the majority of risk types and businesses within its trading portfolios. Where insufficient data is available for such an approach, an 'extreme-move' methodology is used. The model is based on the profit 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. CS group uses a three-year historical dataset to compute VaR. To ensure that VaR responds appropriately in times of market stress, CS 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. During 2010 this scaled VaR methodology was revised for regulatory VaR.

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

The VaR model uses assumptions and estimates that CS group believes are reasonable, but changes to assumptions or estimates could result in a different VaR measure. As a risk measure, VaR only quantifies the potential loss on a

**37. Financial Instruments Risk Position (continued)**

portfolio under normal market conditions. Other risk measures, such as scenario analysis, are used to estimate losses associated with unusually severe market movements. The main assumptions and limitations of VaR as a risk measure are:

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

***Scenario analysis***

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

As past events recur rarely in exactly the same way, it is necessary to use business experience to choose a set of meaningful scenarios and to assess the scenario results in light of current economic and market conditions. In addition to scenarios built around historically observed events, we also consider hypothetical adverse events and their impact. This is done in collaboration with our research functions based on our view of possible macroeconomic developments.

The scenario analysis calculations performed are specifically tailored towards their respective risk profile. In addition, to identify areas of risk concentration and potential vulnerability to stress events across CS group, it has developed a set of scenarios which are consistently applied across all businesses. Key scenarios include significant movements in credit markets, interest rates, equity prices and exchange rates, as well as adverse changes in counterparty default and recovery rates. CS group also uses combination scenarios, which consider the impact of significant, simultaneous movements across a broad range of markets and asset classes, to analyse the impact of wider market turbulence.

The scenario analysis framework also considers the impact of various scenarios on key capital adequacy measures such as regulatory capital and economic capital ratios. The Board of Directors and senior management are regularly provided with scenario analysis estimates, trend information and supporting explanations as an integral part of risk management and risk appetite decisions.

The scenario analysis framework is periodically reviewed and expanded to ensure that it remains relevant to evolving portfolio composition and market conditions. Although the backtesting of existing scenarios applied across the Group indicated that the scenario analysis framework, which was recalibrated during 2008 and 2009, was still relevant in 2010. CS group implemented several new business scenarios in response to the evolution of the portfolio composition and market developments.

**Trading portfolios**

***Risk measurement and management***

We assume market risk in our trading portfolios primarily through the trading activities of the Investment Banking segment. Our other segments also engage in trading activities, but to a much lesser extent.

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

**37. Financial Instruments Risk Position (continued)**

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

***Development of trading portfolio risks***

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

**Ten-day, 99% VaR – trading portfolios**

| End of period | Interest rate and credit spread | Foreign exchange | Commodity | Equity | Diversification benefit | Total |
|---|---|---|---|---|---|---|
| **2010 US$M** | | | | | | |
| Average | 198 | 58 | 62 | 76 | -231 | 163 |
| Minimum | 131 | 19 | 31 | 24 | 2) | 118 |
| Maximum | 271 | 149 | 129 | 234 | 2) | 262 |
| End of period | 252 | 60 | 50 | 93 | -266 | 189 |
| **2009 US$M** | | | | | | |
| Average | 254 | 72 | 52 | 87 | -237 | 230 |
| Minimum | 153 | 29 | 17 | 35 | 2) | 155 |
| Maximum | 330 | 208 | 92 | 239 | 2) | 333 |
| End of period | 215 | 33 | 70 | 151 | -307 | 160 |

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 Bank's ten-day, 99% regulatory VaR as of 31 December 2010 increased by 18% to US$189M, compared to 31 December 2009.

Various techniques are used to assess the accuracy of the VaR model used for trading portfolios, including backtesting. In line with industry practice, the Bank presents backtesting using actual daily trading revenues. Actual daily trading revenues are compared with VaR calculated using a one-day holding period. A backtesting exception occurs when the daily loss exceeds the daily VaR estimate. The Bank had no backtesting exceptions in 2010 compared to 4 backtesting exceptions in 2009.

**Non-trading portfolios**

***Risk measurement and management***

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

**37. Financial Instruments Risk Position (continued)**

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

Foreign exchange risk related to expenses and net assets is centrally and systematically managed with a focus on risk reduction and diversification. Risk is monitored and managed at the Group level through the levelling of accrued profit or losses which are incurred in a currency other than the Group's presentation currency. Any non-presentation currency denominated profit or loss of the Group is systematically leveled against the Group's presentation currency during or immediately after the month so that foreign exchange risks on accrued profit or loss are fully eliminated at month-end. The Group has approval to manage its own trading profit or loss related foreign exchange risk through a formal trading mandate and operates within defined risk limits.

Interest rate risk on non-trading positions is shown below using sensitivity analysis that estimates the potential change in value resulting from defined changes in interest rate yield curves. The impact of a one-basis-point parallel increase in yield curves on the fair value of interest rate-sensitive non-trading book positions would have been an increase of US$2M as of December 31, 2010 compared to US$1M as of December 31, 2009. 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 December 31, 2010, the fair value impacts of an adverse 200-basis-point move in yield curves and of a statistical one-year, 99% adverse change in yield curves were a decrease of US$240M and a decrease of US$294M, respectively. These amounts are significantly below the 20% threshold used by regulators to identify firms that potentially run excessive levels of non-trading interest rate risk.

Equity risk on non-trading positions is measured using sensitivity analysis that estimates the potential change in value resulting from a 10% decline in the equity markets of developed nations and a 20% decline in the equity markets of emerging market nations. The estimated impact of this scenario would have been a decrease of approximately US$22M in the value of the non-trading portfolio as of 31 December, 2010 and the same as of 31 December, 2009.

Commodity risk on non-trading positions is measured using sensitivity analysis that estimates the potential change in value resulting from a 20% weakening in commodity prices. The estimated impact of this scenario would have been a decrease of approximately US$11M in the value of the non-trading portfolio as of December 31, 2010 compared to US$13M as of December 31, 2009.

**ii) Liquidity Risk**

Liquidity, as with funding, capital and foreign exchange exposures, is centrally managed by Treasury. Oversight of these activities is provided by the CARMC, a committee that includes the CEOs of the Group and the divisions, the CFO, the CRO, the Investment Bank CFO and the Treasurer.

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

***Group-wide Management of Liquidity Risk***

Liquidity, as with funding, capital and foreign exchange exposures, is centrally managed by Treasury. Oversight of these activities is provided by the CARMC, a committee that includes the CEOs of the Group and the divisions, the CFO, the CROs of the Group and the Bank and the Treasurer.

The liquidity and funding strategy is approved by CARMC and overseen by 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.

Treasury operates a centralised funding model in that it grants each of its branches and subsidiaries full access (under all circumstances, including in the event of a liquidity crisis) to the Bank's global pool to meet any funding requirements.

Credit Suisse AG's (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 any stress situation. The liquidity and funding profile is regularly reported to

**37. Financial Instruments Risk Position (continued)**

CARMC and the Board of Directors, who define CS' risk tolerance and the balance sheet usage of the businesses.

The liquidity and funding profile of CS reflects the risk appetite, business activities, strategy, the markets and overall operating environment, adapted to reflect lessons learned from the recent financial crisis and subsequent changes in business strategy. Liquidity risk management also reflects evolving best practice standards. CS is an active participant in regulatory and industry forums on liquidity management, including the Basel Committee on Banking Supervision (BCBS) and the Institute of International Finance.

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 well in excess of illiquid assets. Unsecured funding sources of CS include private, corporate and retail banking client deposits, long term debt, certificates of deposit, bank deposits, fiduciary deposits, central bank deposits and other non-bank deposits.

To address short term liquidity needs a portfolio of highly liquid securities and cash is maintained. Both unsecured long-term debt and liquid assets were increased in 2010 in amounts greater than required for funding the business in order to adequately manage liquidity risk. The funding and liquidity costs have increased as a result which is allocated to the business reflecting the true economic cost and is consistent with the liquidity policy.

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 liquidity position of the firm is the 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.

The barometer is a key component of CS' liquidity risk management framework under which both CS specific and systemic market stress scenarios are modelled. This framework is supplemented by the modelling of additional stress events and additional liquidity risk measurement tools.

CARMC reviews the methodology and assumptions of the liquidity risk management framework and determines the liquidity horizon to be maintained by Treasury in order to ensure that the liquidity profile is managed at an appropriate level.

In the event of a liquidity crisis, CS would activate its liquidity contingency plan, 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 plan, which is regularly updated, sets out a three stage process of the specific actions that would be taken:

- Stage I – Market disruption or Group / Bank event.
- Stage II – Unsecured markets partially inaccessible.
- Stage III – Unsecured funding totally inaccessible.

The contingency plan would be activated by the Liquidity Execution Committee, which includes senior business line, funding and finance department management. This committee would meet frequently throughout the crisis to ensure that the plan is executed.

***Legal Entity Management of Liquidity Risk***
The liquidity risk of CSi is managed as an integral part of the overall CS global liquidity risk management framework.

CSi aims to a prudent approach in the management of liquidity to ensure it can meet its obligations as they fall due. The core liquidity adequacy analysis used for CSi is aligned to those used globally for the CS barometer.

The CS centralised funding model, which forms part the global liquidity management framework at CS, described above seeks to ensure that CSi is self-sufficient from a liquidity perspective by down streaming term funding to mitigate risks in the entity.

**37. Financial Instruments Risk Position (continued)**

Key characteristics determining CSi's liquidity risk management approach include, but are not limited to:

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

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

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

As reflected globally, maintaining liquidity gives rise to a cost in respect of generating a term funding profile and holding a buffer of highly liquid assets. Businesses are charged or rewarded based on their use or generation of liquidity with pricing based on funding requirements in a stressed scenario and adheres to the global liquidity policy.

Treasury is responsible for maintaining a contingency funding plan ("CFP") that details specific dealing strategies, actions and responsibilities required under distinct stages of increasing severity. 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 and daylight collateral requirements.

Incremental to CSi's unsecured funding sources from CS, CSi has the ability to access secured funding markets via repurchase agreements and a structured note issuance programme. These funding streams provide additional financing to meet business plans and commercial commitments.

CSi, a full scope BIPRU mismatch bank, was required to be compliant with the new FSA quantitative and qualitative liquidity risk framework as set out in PS 09/16, published in December 2009, from 1 October 2010.

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

| **Group 31 December 2010** | **On Demand** | **Due within 3 months** | **Due between 3 and 12 months** | **Due between 1 and 5 years** | **Due after 5 years** | **Total** |
|---|---|---|---|---|---|---|
| | **US$M** | **US$M** | **US$M** | **US$M** | **US$M** | **US$M** |
| Deposits | 2,723 | - | 10 | - | - | 2,733 |
| Securities sold under repurchase agreements and securities lending transactions | - | 7,021 | 863 | - | 1 | 7,885 |
| Trading liabilities | 434,579 | - | - | - | - | 434,579 |
| Other financial liabilities designated at fair value through profit or loss | 496 | 7,826 | 3,763 | 13,298 | 8,759 | 34,142 |
| Short term borrowings | 1 | 22 | 19,001 | - | - | 19,024 |
| Long term debt | - | 30 | 15 | 18,909 | 11,475 | 30,429 |
| Other liabilities | 38,182 | - | 86 | 341 | 87 | 38,696 |
| **Total** | **475,981** | **14,899** | **23,738** | **32,548** | **20,322** | **567,488** |

**37. Financial Instruments Risk Position (continued)**

| Group<br>31 December 2009 | On Demand | Due within 3 months | Due between 3 and 12 months | Due between 1 and 5 years | Due after 5 years | Total |
|---|---|---|---|---|---|---|
| | US$M | US$M | US$M | US$M | US$M | US$M |
| Deposits | 18 | 2,210 | 3 | - | - | 2,231 |
| Securities sold under repurchase agreements and securities lending transactions | - | 295 | - | 3,824 | 1 | 4,120 |
| Trading liabilities | 437,653 | - | - | - | - | 437,653 |
| Other financial liabilities designated at fair value through profit or loss | 248 | 12,294 | 6,755 | 13,855 | 9919 | 43,071 |
| Short term borrowings | - | 27,586 | 452 | - | - | 28,038 |
| Long term debt | - | 7,959 | 408 | 1,675 | 2,746 | 12,788 |
| Other liabilities | 38,918 | 165 | 2 | 1,002 | 112 | 40,199 |
| | **476,837** | **50,509** | **7,620** | **20,356** | **12,778** | **568,100** |

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 Long term debt, the projected coupons have also been excluded. Callable deposits, open ended positions and overnight funding will be recorded at their present value in an 'on demand' categorisation. This classification will be based on the underlying legal and contractual ability of the counterparty or CSi to put or call the positions at short notice.

**iii) Wrong-way Risk**

***Wrong-way exposures***

Correlation risk arises when we enter into a financial transaction where market rates are correlated to the financial health of the counterparty. In a wrong-way trading situation, our 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. We have 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 is an analysis and discussion to understand 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 "rightway" trades.

Purchased credit default swaps – Correlation exists where the counterparty and the underlying reference asset belong to the same group. In these cases, exposure is calculated assuming default and applying the recovery value of the underlying reference asset.

Equity finance – If there is a high correlation between the counterparty and the underlying equity, exposure is calculated as full notional (i.e., zero equity recovery).

Reverse repurchase agreements – Correlation exists where the underlying issuer and the counterparty are affiliated. In these cases, collateral used as an offset in the exposure calculation process is lowered to its recovery value.

**37. Financial Instruments Risk Position (continued)**

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

Country exposure reporting – Exposure is reported against country limits established for emerging market countries. As part of the exposure reporting process, exposures that exhibit wrong-way characteristics are given a higher riskweighting versus non-correlated transactions. This weighting results in a greater amount of country limit usage for wrong-way transactions.

Counterparty exposure reporting – Transactions that contain wrong-way risk (e.g., repurchase agreements, equity finance) are risk weighted as part of the daily exposure calculation process. Correlated transactions utilise more of the credit limit.

Correlated repurchase and foreign exchange reports – Monthly reports produced by CRM capture correlated finance and foreign exchange positions for information and review by credit officers.

Scenario risk reporting – In order to capture wrong-way risk at the industry level, a set of defined scenarios are run on the credit portfolio each month. The scenarios are determined by CRM and involve stressing the underlying risk drivers to determine where portfolios are sensitive to these stressed parameters.

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

**iv) Currency Risk**

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

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

**v) Credit Risk**

Credit Risk Management (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 area's credit portfolios and allowances. CRM reports to the Chief Risk Officer of CS group.

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

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

***Credit Risk Management Approach***
Our credit risk management framework is regularly refined and covers all banking business areas that are exposed to credit risk. The framework is designed to cover 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;

**37. Financial Instruments Risk Position (continued)**

- Active credit portfolio management; and
- A credit risk provisioning methodology.

Credit risk is evaluated through a credit request and approval process, ongoing credit and counterparty monitoring and a credit quality review process. Experienced credit officers analyse credit requests and assign internal ratings based on their analysis and evaluation of the clients' creditworthiness and the type of credit transaction.

***Concentration of credit risk***

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

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

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

***Counterparty and transaction rating***

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

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

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

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

Additionally, an estimate of expected loss in the event of a counterparty default is assigned based on the structure of each transaction. The counterparty credit rating is used in combination with credit (or credit equivalent) exposure and the loss given default ('LGD') assumption to estimate the potential credit loss. LGD represents the expected loss on a transaction should default occur and takes into account structure, collateral, seniority of the claim and, in certain areas, the type of counterparty.

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

***Credit approval process and provisioning***

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

**37. Financial Instruments Risk Position (continued)**

These approval authority levels are set by legal entity.

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

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. Other key factors considered in the review process include current and projected business and economic conditions, historical experience, regulatory requirements and concentrations of credit by industry, country, product and counterparty rating. Regularly updated watch-lists and review meetings are used for the identification of counterparties where adverse changes in creditworthiness could occur due to events such as announced mergers, earnings weakness and lawsuits.

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

**Credit Risk Overview**

All transactions that are exposed to potential losses due to failure of meeting an obligation by a counterparty are subject to credit risk exposure measurement and management. The following table presents the credit risk of on balance sheet and off-balance sheet financial instruments, before taking account of any collateral held or other credit enhancements unless such credit enhancements meet offsetting requirements as set out in IAS 32. For financial assets recognised on the balance sheet, the exposure to credit risk equals their carrying amount. For financial guarantees granted, the exposure to credit risk is the amount CSi would have to pay if the guarantees are called upon. For loan commitments and other credit related commitments that are irrevocable over the life of the respective facilities, the exposure to credit risk is the full amount of the committed facilities.

***Collateral held as security***

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

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

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

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

***Primary types of collateral***

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

- Cash and US Treasury instruments;

**37. Financial Instruments Risk Position (continued)**

- G -10 government securities; and
- Gold or other precious metals.

Collateral securing loan transactions primarily includes:

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

For further information on collateral, refer to Note 35 – Assets Pledged or Assigned.

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

The following table presents the maximum exposure to credit risk of balance sheet and off-balance sheet financial instruments, before taking account of any collateral held or other credit enhancements unless such credit enhancements meet offsetting requirements as set out in IAS 32. For financial assets recognised on the balance sheet, the exposure to credit risk equals their carrying amount as at 31 December 2010. For financial guarantees granted and other credit-related contingencies, the maximum exposure to credit risk is the maximum amount that Credit Suisse would have to pay if the guarantees and contingencies are called upon. For loan commitments and other credit-related commitments that are irrevocable over the life of the respective facilities, the maximum exposure to credit risk is the full amount of the committed facilities.

**Maximum exposure to credit risk**

| | Group 2010 US$M | Group 2009 US$M | Bank 2010 US$M | Bank 2009 US$M |
|---|---|---|---|---|
| Interest bearing deposits with banks | 127 | 255 | 110 | 238 |
| Securities purchased under resale agreements and Securities borrowing transactions | 16,132 | 19,337 | 16,132 | 19,337 |
| Trading financial assets at fair value through profit or loss | | | | |
| - debt securities | 25,975 | 26,515 | 24,364 | 25,485 |
| - derivative trading positions | 406,713 | 409,873 | 407,229 | 410,736 |
| - other | 7,453 | 6,525 | 8,344 | 6,560 |
| Financial assets designated at fair value through profit or loss | | | | |
| - debt securities | 4,518 | 2,931 | 4,518 | 2,931 |
| - loans | 12,205 | 15,812 | 12,205 | 15,812 |
| - reverse repurchase agreements | 7,200 | 10,938 | 8,997 | 11,181 |
| - other | 556 | - | 556 | - |
| Other loans and receivables | | | | |
| - banks | 982 | 999 | 982 | 999 |
| - customers | 4,606 | 5,358 | 4,606 | 5,358 |
| Other assets | 47,776 | 41,820 | 49,299 | 43,285 |
| **Maximum exposure to credit risk – total assets** | **534,243** | **540,363** | **537,342** | **541,922** |
| Off-balance sheet items | | | | |
| - financial guarantees | 870,964 | 867,085 | 870,964 | 867,085 |
| - loan commitments and other credit related commitments | 10,155 | 10,925 | 10,155 | 10,925 |
| **Maximum exposure to credit risk – total off-balance sheet** | **881,119** | **878,010** | **881,119** | **878,010** |
| **Maximum exposure to credit risk** | **1,415,362** | **1,418,373** | **1,418,461** | **1,419,932** |

**37. Financial Instruments Risk Position (continued)**

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

**Counterparty Exposure before Collateral by Rating**

| **Bank** | **31 December 2010** | | **31 December 2009** | |
|---|---|---|---|---|
| | **US$M** | **%** | **US$M** | **%** |
| AAA | 6,165 | 7 | 6,445 | 8 |
| AA+ to AA- | 18,266 | 22 | 17,779 | 21 |
| A+ to A- | 29,427 | 35 | 28,579 | 34 |
| BBB+ to BBB- | 13,894 | 17 | 14,179 | 17 |
| BB+ to BB- | 6,472 | 8 | 4,990 | 6 |
| B+ and below | 9,133 | 11 | 11,584 | 14 |
| | **83,357** | **100** | **83,556** | **100** |

**Unsecured Exposure by Rating (including provisions)**

| **Bank** | **31 December 2010** | | **31 December 2009** | |
|---|---|---|---|---|
| | **US$M** | **%** | **US$M** | **%** |
| AAA | 5,688 | 17 | 4,709 | 13 |
| AA+ to AA- | 5,886 | 18 | 6,885 | 19 |
| A+ to A- | 10,732 | 32 | 10,986 | 31 |
| BBB+ to BBB- | 5,468 | 16 | 4,499 | 13 |
| BB+ to BB- | 1,992 | 6 | 1,710 | 5 |
| B+ and below | 3,643 | 11 | 6,632 | 19 |
| | **33,409** | **100** | **35,421** | **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 Bank as most of the trading portfolio mainly resides in the Bank.

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

**vi) Country Risk**

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

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

**37. Financial Instruments Risk Position (continued)**

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 Group manages its risk through confirmation and affirmation of transaction details with counterparties. In order to reduce gross settlement risk the 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 and systems or from external events. CS group's primary aim is the early identification, recording, assessment, monitoring, prevention and mitigation of operational risks, as well as timely and meaningful management reporting. Where appropriate, CS group transfers operational risks to third-party insurance companies.

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

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

**37. Financial Instruments Risk Position (continued)**

Business divisions and Shared Services specialist operational risk teams are responsible for the implementation of the operational risk management framework, tools, reporting and methodologies within their areas as well as working with management on any operational risk issues that arise. Additionally, CS group has established a central Bank Operational Risk Oversight team within the Chief Risk Officer function that focuses on the coordination of consistent policy, tools and practices throughout CS group for the management, measurement, monitoring and reporting of relevant operational risks. This team is also responsible for the overall operational risk framework, measurement methodology and capital calculations. Knowledge and experience are shared throughout CS group to maintain a coordinated approach.

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

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

**x) Reputational Risk**

CS group's policy is to avoid any action or transaction that brings with it a potentially unacceptable level of risk to its reputation. Reputational risk may arise from a variety of sources, including the nature or purpose of a proposed transaction, the identity or nature of a potential client, the regulatory or political climate in which the business will be transacted or significant public attention surrounding the transaction itself. Where the presence of these or other factors gives rise to potential reputational risk for CS group, the relevant business proposal is required to be submitted to CS group's Reputational Risk Review Process. This involves a vetting of the proposal by senior business management, and its subsequent referral to one of CS group's Reputational Risk Approvers, each of whom is independent of the business divisions and has authority to approve, reject, or impose conditions on CS group's participation.

**38. Capital Adequacy**

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

**Capital Resources**

Regulatory capital resources comprise a number of 'tiers'. Tier 1 capital principally comprises shareholders' equity. This is supplemented by Tier 2 and Tier 3 capital, which consist mainly of subordinated debt instruments. Total capital equals the sum of these, less deductions for such items as investments in non-consolidated subsidiaries and holdings of capital instruments issued by other credit institutions and financial institutions in excess of trading book concessions.

CSi's overall capital needs are continuously reviewed to ensure that its capital base can appropriately support the anticipated needs of its businesses. The capital management framework at CSG ensures that capital resource 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.

**38. Capital Adequacy (continued)**

CSi received a capital injection during the course of 2010 in order to support the business as follows:

| | 2010 US$M | 2009 US$M (restated)[1] |
|---|---|---|
| **Total regulatory capital less deductions at 1 January** | **19,142** | **16,773** |
| Net capital injections during the year: | | |
| Core Tier 1 | 500 | 1,500 |
| Non Core Tier 1 | - | (175) |
| | **500** | **1,325** |
| **Other movements** | **(308)** | **1,044** |
| **Total regulatory capital less deductions at 31 December** | **19,334** | **19,142** |

[1] On 1 January 2010, the Group adopted amendments to IFRS 2-Group Cash-settled Share-based Payment Transactions. Comparative information has been restated accordingly (See Note 2).

Other movements represent the Profit for the year and the 2010 increase in Expected Loss and Intangible Assets.

Other movements 2009 (Restated) represent the Profit for the year and the 2009 increase in Expected loss and Intangible Assets.

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

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

The following table sets out details of CSi's regulatory capital resources at 31 December 2010 and 2009.

| | 2010 US$M | 2009 US$M (restated)[1] |
|---|---|---|
| **Total shareholders' equity** | **11,414** | **10,810** |
| Reconciliation to Tier 1 capital: | | |
| Regulatory deductions | (391) | (448) |
| **Tier 1 capital less deductions** | **11,023** | **10,362** |
| Tier 2 capital: | | |
| Upper Tier 2- Perpetual Subordinated Debt | 4,186 | 4,192 |
| Lower Tier 2 – Term Subordinated Debt | 5,985 | 6,057 |
| Excess Tier 2 capital | (474) | (876) |
| **Tier 2 capital** | **9,697** | **9,373** |
| | | |
| **Tier 1 plus Tier 2 capital** | **20,720** | **19,735** |
| Deductions | (1,705) | (1,318) |
| **Tier 1 plus Tier 2 capital, less deductions** | **19,015** | **18,417** |
| Excess Tier 2 capital | 474 | 876 |
| Deductions from total capital | (155) | (151) |
| **Total regulatory capital less deductions** | **19,334** | **19,142** |

[1] On 1 January 2010, the Group adopted amendments to IFRS 2-Group Cash-settled Share-based Payment Transactions. Comparative information has been restated accordingly (See Note 2).

**39. FSA Piller 3 disclosures**

Under a waiver agreed with the FSA, certain of the Pillar 3 disclosures required by the UK implementation of Basel 2 need not be made by CSi as a stand-alone entity on the basis that they are included in the comparable disclosures provided on a consolidated basis by CS group (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.

**40. Subsequent Events**

In the budget announcement of 23 March 2011, the UK government announced its intention to further reduce the corporation tax rate by 1% with effect from 1 April 2011. The impact of this change when substantially enacted will be to decrease the deferred tax asset recorded as at 31 December 2010 by US$66M.

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