

QUALSTAR CORP  
Form SC 13D/A  
January 18, 2013

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

SCHEDULE 13D

(Rule 13d-101)

INFORMATION TO BE INCLUDED IN STATEMENTS FILED PURSUANT  
TO RULE 13d-1(a) AND AMENDMENTS THERETO FILED PURSUANT TO  
RULE 13d-2(a)

(Amendment No. 8)(1)

Qualstar Corporation  
(Name of Issuer)

Common Stock, no par value  
(Title of Class of Securities)

74758R109  
(CUSIP Number)

BKF Capital Group, Inc.

Steven N. Bronson

225 N.E. Mizner Boulevard, Suite 400

Boca Raton, Florida 33432

(561) 362-4199

with a copy to:

James A. Prestiano, Esq.

631 Commack Road, Suite 2A

Commack, New York 11725

(631) 499-6000

(Name, Address and Telephone Number of Person

Authorized to Receive Notices and Communications)

January 17, 2013

(Date of Event which Requires Filing of This Statement)

If the filing person has previously filed a statement on Schedule 13G to report the acquisition that is the subject of this Schedule 13D, and is filing this schedule because of Rule 13d-1(e), 13d-1(f) or 13d-1(g), check the following box "

Note: Schedules filed in paper format shall include a signed original and five copies of the schedule, including all exhibits. See Rule 13d-7(b) for other parties to whom copies are to be sent.

The information required on the remainder of this cover page shall not be deemed to be "filed" for the purpose of Section 18 of the Securities Exchange Act of 1934 or otherwise subject to the liabilities of that section of the Act but shall be subject to all other provisions of the Act (however, see the Notes)

(Continued on following pages)

(1) The remainder of this cover page shall be filled out for a reporting person's initial filing on this form with respect to the subject class of securities, and for any subsequent amendment containing information which would alter disclosures provided in a prior cover page.

CUSIP No. 74758R109

1. NAME OF REPORTING PERSONS  
I.R.S. IDENTIFICATION NOS. OF  
ABOVE PERSONS (ENTITIES  
ONLY)

BKF Capital Group, Inc. Tax Id. No.  
36-0767530

CHECK THE  
APPROPRIATE BOX IF (a) ..  
2. A MEMBER OF A  
GROUP  
(b) ..

3. SEC USE ONLY

4. SOURCE OF FUNDS

Not applicable.

CHECK BOX IF DISCLOSURE OF  
5. LEGAL PROCEEDINGS IS  
REQUIRED  
PURSUANT TO ITEMS ..  
2(d) OR 2(e)

6. CITIZENSHIP OR PLACE OF  
ORGANIZATION

Delaware

NUMBER OF 7. SOLE VOTING POWER  
SHARES 2,234,520  
BENEFICIALLY

OWNED BY 8. SHARED VOTING POWER  
EACH 0

REPORTING PERSON 9. SOLE DISPOSITIVE POWER  
WITH 2,234,520

10. SHARED DISPOSITIVE POWER  
0

11. AGGREGATE  
AMOUNT  
BENEFICIALLY  
OWNED BY EACH  
REPORTING  
PERSON

2,234,520

12. CHECK BOX IF THE  
AGGREGATE  
AMOUNT IN ROW  
(11) EXCLUDES  
CERTAIN SHARES\* \*\*

13. PERCENT OF CLASS  
REPRESENTED BY  
AMOUNT IN ROW  
(11)

18.2%

14. TYPE OF  
REPORTING  
PERSON

CO

SEE INSTRUCTIONS BEFORE FILLING OUT

CUSIP No. 74758R109

1. NAME OF REPORTING PERSONS

I.R.S. IDENTIFICATION NOS. OF ABOVE PERSONS (ENTITIES ONLY)

Steven N. Bronson

2. CHECK THE APPROPRIATE BOX IF A MEMBER OF A GROUP (a) (b)

3. SEC USE ONLY

4. SOURCE OF FUNDS

Not applicable.

5. CHECK BOX IF DISCLOSURE OF LEGAL PROCEEDINGS IS REQUIRED PURSUANT TO ITEMS 2(d) OR 2(e)

6. CITIZENSHIP OR PLACE OF ORGANIZATION

USA

NUMBER OF SHARES BENEFICIALLY OWNED BY EACH REPORTING PERSON WITH

7. SOLE VOTING POWER  
57,700

8. SHARED VOTING POWER  
2,234,520

9. SOLE DISPOSITIVE POWER  
57,700

10. SHARED DISPOSITIVE POWER  
2,234,520

11. AGGREGATE AMOUNT BENEFICIALLY OWNED BY EACH REPORTING PERSON

2,292,220

CHECK BOX IF THE  
12. AGGREGATE  
AMOUNT IN ROW  
(11) EXCLUDES  
CERTAIN SHARES\* \*\*

PERCENT OF CLASS  
13. REPRESENTED BY  
AMOUNT IN ROW  
(11)

18.7%

TYPE OF  
14. REPORTING  
PERSON

IN

SEE INSTRUCTIONS BEFORE FILLING OUT

CUSIP No. 74758R109 SCHEDULE 13D

Item 1. Security and Issuer.

Except as expressly restated and amended below, the Schedule 13D as filed on behalf of BKF Capital Group, Inc. and Steven N. Bronson with respect to the shares of common stock, no par value per share (the "Common Stock") of Qualstar Corporation, a California corporation, with its principal offices located at 3990-B Heritage Oak Court Simi Valley, CA 93063 (the "Issuer") remains in full force and effect. The Issuer recently reported that as of September 30, 2012, the Issuer had 12,253,117 shares of Common Stock outstanding.

Item 2. Identity and Background.

(a) This Schedule 13D Amendment No. 8 is filed on behalf of BKF Capital Group, Inc. ("BKF Capital") and Steven N. Bronson.

(b) BKF Capital and Mr. Bronson's business address is 225 N.E. Mizner Boulevard, Suite 400, Boca Raton, Florida 33432.

(c) BKF Capital is a publicly traded corporation and Mr. Bronson is the Chairman and President of BKF Capital. Mr. Bronson is the sole owner of BA Value Investors, LLC, a Florida limited liability company. Mr. Bronson is also President of Catalyst Financial LLC ("Catalyst"), a broker-dealer registered under the Act. Catalyst's offices are located at 225 N.E. Mizner Boulevard, Suite 400, Boca Raton, Florida 33432.

(d) During the last five years neither BKF Capital nor Mr. Bronson have been convicted in a criminal proceeding (excluding traffic violations or similar misdemeanors).

(e) Neither BKF Capital nor Mr. Bronson have, during the last five years, been a party to a civil proceeding of a judicial or administrative body of competent jurisdiction and as a result of such proceeding was or is subject to a judgment, decree or final order enjoining further violations of, or prohibiting or mandating activities subject to the federal or state securities laws or finding any violation with respect to such laws.

(f) BKF Capital is organized under the laws of the State of Delaware and Mr. Bronson is a citizen of the United States of America.



Item 3. Source and Amount of Funds or Other Consideration.

Not applicable.

Item 4. Purpose of Transaction.

Item 4 of the Schedule 13D is amended by adding the following disclosures:

On January 17, 2013, BKF Capital sent a letter (the "Notice") to the Issuer, notifying the Issuer that in accordance with Section 6 of Article II of the Issuer's Bylaws, as amended and restated as of March 24, 2011, BKF Capital intends to nominate six (6) directors to serve on the Issuer's Board of Directors at the 2013 Annual Meeting of Shareholders. Specifically, in the Notice, BKF Capital nominated the following persons for election to the Issuer's Board of Directors at the 2013 Annual Meeting of Shareholders: Steven N. Bronson, Edward J. Fred, Sean M. Leder, David J. Wolenski, Alan B. Howe and Maria Fregosi.

Item 5. Interest in Securities of the Issuer.

(a)(b) BKF Capital owns an aggregate of 2,234,520 shares of the Issuer's Common Stock, representing approximately 18.2% of the total shares of Common Stock deemed outstanding. Steven N. Bronson as the Chairman and President of BKF Capital may be deemed to be the beneficial owner of the shares of Common Stock held by BKF Capital. Mr. Bronson, as the sole owner of BA Value Investors, LLC, beneficially owns an additional 57,700 shares of Common Stock, as to which he possesses voting and disposition power. Accordingly, Mr. Bronson may be deemed to beneficially own an aggregate of 2,292,220 shares of the Issuer's Common Stock, representing approximately 18.7% of the total shares of Common Stock deemed outstanding.

(c) Not applicable.

(d) Not applicable.

(e) Not applicable.

Item 6. Contracts, Arrangements, Understandings or Relationships with Respect to Securities of the Issuer.

BKF Capital and each of the individuals (a "Nominee" collectively the "BKF Nominees") that BKF Capital has nominated to be elected a director of the issuer, have entered into a Nominee Agreement, pursuant to which the Nominee agreed to be nominated by BKF Capital to the Issuer's Board of Directors, and to serve if elected, and BKF Capital agreed to

indemnify each of the BKF Nominees against any and all losses, liabilities, judgments, claims, causes of action, costs and expenses (including fees and disbursements of legal counsel) incurred or suffered by each of them in any way, directly or indirectly, related to or connected with their nomination as a director of the Issuer. A copy of the form of the Nominee Agreement is attached hereto as an exhibit.

Item 7. Material to be Filed as Exhibits.

Form of Nominee Agreement.

After reasonable inquiry and to the best of my knowledge and belief, I certify that the information set forth in this statement is true, complete and correct.

Dated: January 18, 2013

BKF Capital Group, Inc.

By: /s/ Steven N. Bronson  
Steven N. Bronson, President

Steven N. Bronson

/s/ Steven N. Bronson  
Steven N. Bronson

Attention: Intentional misstatements or omissions of fact constitute federal criminal violations (See 18 U.S.C. Section 1001).

EXHIBIT

FORM OF NOMINEE AGREEMENT

BKF Capital Group, Inc.  
225 NE Mizner Park Blvd.  
Suite 400  
Boca Raton, FL 33432

January , 2013

[Nominee]

[Address]

Dear Nominee:

This will confirm our understanding as follows:

You agree that you are willing to become a member of a slate of nominees (the "Slate") of BKF Capital Group, Inc. (the "Nominating Party" or "BKF"), to stand for election as directors of Qualstar Corporation (TICKER: QBAK) (the "Company") in connection with a possible proxy solicitation (the "Proxy Solicitation") to be conducted by BKF and certain related parties in respect of the annual meeting of stockholders of the Company (including any adjournment or postponement thereof or any special meeting held in lieu thereof, the "Meeting") or in connection with a possible solicitation of written consents (the "Consent Solicitation") to elect directors without a meeting. You further agree to serve as a director of the Company if elected. BKF, along with its affiliates, agrees to pay the costs of the Proxy Solicitation or Consent Solicitation.

You understand that it may be difficult, if not impossible, to replace a nominee who, such as yourself, has agreed to serve on the Slate and, if elected, as a director of the Company if such nominee later changes his mind and determines not to serve on the Slate or, if elected, as a director of the Company. Accordingly, BKF is relying upon your agreement to serve on the Slate and, if elected, as a director of the Company.

In that regard, you are being supplied with a questionnaire (a "Questionnaire") in which we request that you provide information necessary for the Nominating Party to make appropriate disclosure to the Company and to use in creating the proxy materials to be sent to stockholders of the Company and filed with the Securities and Exchange Commission in connection with the Proxy Solicitation or the consent materials to be sent and filed in connection with the Consent Solicitation. You agree that your responses in the Questionnaire will be true, complete and correct in all respects. We may forward your completed Questionnaire and executed consent (attached hereto) or summaries thereof to the Company, and we may disclose such information, as well as the existence and contents of this letter.

The Nominating Party shall provide you with a final or near-final draft of all proxy materials to be sent to stockholders of the Company and filed with the Securities and Exchange Commission, as to each set of materials (in the event there is more than one set) no later than one business day prior to that set of materials being sent, filed or otherwise made public.

The Nominating Party agrees to defend, indemnify and hold you harmless from and against any and all losses, claims, damages, penalties, judgments, awards, settlements, liabilities, costs, expenses and disbursements incurred by you, and to advance to you your reasonable legal and investigative costs (subject to your agreement to repay the same to the extent it is determined that you are not entitled to indemnification hereunder), (i) in the event that you become a party, or are threatened to be made a party, to any civil, criminal, administrative or arbitral action, suit or proceeding, and any appeal thereof relating to your role as a nominee for director of the Company on the Slate (a "Proceeding"), (ii) in the event you are called to testify or give a deposition in any Proceeding (whether or not you are a party or are threatened to be made a party to such Proceeding), or (iii) otherwise arising from or in connection with or relating to the Proxy Solicitation or Consent Solicitation, to you all reasonable attorneys' costs and expenses incurred by you as and when incurred by you.

Your rights of indemnification and advancement hereunder shall continue (i) in the event that the Nominating Party determines to withdraw the Slate or remove you from the Slate and (ii) after the Meeting or consent in lieu of the Meeting has taken place, in all events for events which occur prior to the Meeting or consent in lieu of the Meeting and subsequent to the date hereof.

Anything to the contrary herein notwithstanding, the Nominating Party is not indemnifying you for any action taken by you or on your behalf that occurs prior to the date hereof or subsequent to the conclusion of the Proxy Solicitation or Consent Solicitation or such earlier time as you are no longer a nominee on the Slate for election to the Company's Board of Directors or for any actions taken by you as a director of the Company if you are elected. Nothing herein shall be construed to provide you with indemnification: (i) if you are found to have engaged in a violation of any provision of state or federal law in connection with the Proxy Solicitation or Consent Solicitation, unless you demonstrate that your action was taken in good faith and in a manner you reasonably believed to be in or not opposed to the best interests of electing the Slate; (ii) for conduct by you that constitutes gross negligence or willful misconduct; or (iii) to the extent of your having provided false or misleading information, or omitted material information, in the Questionnaire or otherwise in connection with the Proxy Solicitation or Consent Solicitation.

You shall promptly notify the Nominating Party in writing in the event of any third-party claims actually made against you or known by you to be threatened if you intend to seek indemnification hereunder in respect of such claims, but no delay in delivering such notification shall relieve BKF of its indemnification obligations hereunder, except to the extent that it is actually prejudiced by such delay.

In addition, with respect to any such claim, the Nominating Party shall be entitled to control your defense with counsel chosen by BKF, unless you shall have reasonably concluded that there exists an actual or potential conflict between you and the Nominating Party, and there may be defenses available to you which are different from or additional to those available to the Nominating Party, in which case the Nominating Party shall not have the right to control the defense of such claim on your behalf, you shall have the right to employ your own counsel reasonably satisfactory to BKF, and BKF shall pay the reasonable fees and expenses of not more than one firm of attorneys employed by you.

The Nominating Party shall not be responsible for any settlement of any claim against you covered by this indemnity without its prior written consent. However, the Nominating Party may not enter into any settlement of any such claim without your consent unless such settlement includes (i) no admission of liability or guilt by you and (ii) a release of you from any and all liability in respect of such claim.

Each of us recognizes that should you be elected to the Board of Directors of the Company, all of your activities and decisions as a director will be governed by applicable law and will be subject to your fiduciary duties, as applicable, to the Company and to the stockholders and other constituents of the Company and, as a result, that there is, and can be, no agreement between you and the Nominating Party or related parties that governs the decisions which you will make as a director of the Company.

You agree that this letter and its contents will remain confidential and the Proxy Solicitation or Consent Solicitation, the existence of this letter and the provisions hereof will not be directly or indirectly discussed with or disclosed by you to any third party (other than legal counsel of yours who is aware of the requirements of this paragraph), unless and until the Nominating Party or its affiliates shall make a public statement, announcement, or disclosure concerning this letter, the Proxy Solicitation, or the Consent Solicitation, except as may be required by applicable law and as otherwise provided herein.

This letter sets forth the entire agreement between the Nominating Party and you as to the subject matter contained herein, and this letter cannot be amended, modified or terminated except by a writing executed by the undersigned and you. This letter shall be governed by the laws of the State of New York, without giving effect to principles of conflicts of law.



Should you agree with the foregoing, please so indicate by signing your name in the space provided below, whereupon this letter will become a binding agreement between us.

Very truly  
yours,

BKF  
Capital  
Group,  
Inc.

By:  
Name:  
Title:

Agreed to and accepted as  
of the date first written above:

Name: [Nominee]

CONSENT OF NOMINEE

The undersigned hereby consents to being named and appropriately identified as a nominee for election as a director of Qualstar Corporation (the “Company”) in the proxy statement and proxy card, or the information statement, to be filed with the Securities and Exchange Commission (the “SEC”) and distributed to stockholders of the Company by BKF Capital Group, Inc. and certain of its affiliates and other persons (collectively, “BKF”) and in other materials in connection with (i) the solicitation of proxies by BKF from stockholders of the Company to be voted at the Annual Meeting of Stockholders of the Company (including any adjournment or postponement thereof or any special meeting held in lieu thereof) or (ii) the solicitation of consents by BKF from stockholders of the Company to elect directors in lieu of a meeting, and further consents to serving as a director of the Company, if elected. The undersigned hereby further consents to being named and appropriately identified in the Company’s proxy statement or information statement if required by the rules of the SEC. The undersigned hereby represents that he (i) satisfies, or upon becoming a director will satisfy, the qualifications to be a member of the Board of Directors set forth in the Bylaws of the Company and (ii) will make available to the Board of Directors of the Company all information reasonably requested in furtherance hereof.

Dated: January , 2013

Name: NAME

Other items –1,5181,518–2,0722,072**Total BIS risk-weighted assets 204,88116,728221,609235,64021,827257,467** Additional market risk backtesting multiplier for more than ten exceptions —18,044–18,044Other multiplier 0.8615,10616,192–15,46415,464VaR hedge fund add-on <sup>3</sup>3,716–3,716<sup>9</sup>9,774–9,774**Total FINMA risk-weighted assets 209,68331,834241,517263,45837,291300,749**

1 For a description of the asset classes refer to section 4 - Credit risk. 2 Primarily privately held. 3 The VaR hedge fund capital add-on is stress-test-based and was introduced by the FINMA in 2008 for hedge fund exposures in the trading book. This capital add-on is required for the FINMA calculation in addition to the VaR-based market risk capital charge already included in BIS capital. For further information, refer to section 6 – Market risk. 4 Excluding FINMA floor adjustment of CHF 7,956 million and CHF 48,876 million in 2009 and 2008, respectively, declining primarily due to the Basel I floor percentage movement from 90% to 80%.

BIS and FINMA statistics

	Group		Bank	
end of	2009	2008	2009	2008
BIS statistics				
Tier 1 capital (CHF million)	36,207	34,208	34,695	34,192

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Total eligible capital (CHF million)	45,728	46,090	46,320	47,839
Tier 1 ratio (%)	16.3	13.3	16.5	13.9
Total capital ratio (%)	20.6	17.9	22.0	19.5
FINMA statistics				
FINMA required capital (CHF million) <sup>1</sup>	19,321	24,060	18,316	22,948
Capital requirement covering ratio (%) <sup>2</sup>	236.7	191.6	252.9	208.5

1 Calculated as 8% of total FINMA risk-weighted assets. 2 Including the FINMA floor adjustment, the capital requirement coverage ratio for the Group and the Bank would be 229.1% and 242.1% in 2009 and 164.8% and 177.5% in 2008, respectively.

### 3. Risk exposure and assessment

For information on risk governance, risk organization, risk types and risk limits, refer to III – Treasury, Risk, Balance sheet and Off-balance sheet – Risk management (pages 117 to 136) in the Credit Suisse Annual Report 2009.

### 4. Credit risk

#### General

For information on our credit risk management approach, ratings and risk mitigation and impaired exposures and allowances, refer to III – Treasury, Risk, Balance sheet and Off-balance sheet – Risk management (pages 126 to 135) in the Credit Suisse Annual Report 2009.

For regulatory purposes, we categorize our exposures into broad classes of assets with different underlying risk characteristics including type of counterparty, size of exposure and type of collateral. The asset class categorization is driven by Basel II regulatory rules. The credit asset classes under Basel II are set forth below and are grouped as either institutional or retail.

#### Institutional credit risk

– Sovereigns: exposures to central governments, central banks, BIS, the International Monetary Fund, the European Central Bank and eligible Multilateral Development Banks (MDB).

– Other institutions: exposures to public bodies with the right to raise taxes or whose liabilities are guaranteed by a public sector entity.

– Banks: exposures to banks, securities firms, stock exchanges and those MDB that do not qualify for sovereign treatment.

– Corporates: exposures to corporations (except small businesses) and public sector entities with no right to raise taxes and whose liabilities are not guaranteed by a public entity. The Corporate asset class also includes specialized lending, in which the lender looks primarily to a single source of revenues to cover the repayment obligations and where only the financed asset serves as security for the exposure (e.g., income producing real estate or commodities finance).

#### Retail credit risk

– Residential mortgages: includes exposures secured by residential real estate collateral occupied or let by the borrower.

– Qualifying revolving retail: includes credit card receivables and overdrafts.

– Other retail: includes loans collateralized by securities and small business exposures.

Other credit risk

– Other exposures: includes exposures with insufficient information to treat under the A-IRB approach or to allocate under the Standardized approach into any other asset class.

Gross credit exposures by regulatory approach and risk-weighted assets

end of 2009 (CHF million)	PD/LGD		A-IRB	Stan- dardized	Total	Risk- weighted assets
	Pre- substitution <sup>1</sup>	Post- substitution	SRW			
Sovereigns	64,295	63,517	–	–	63,517	6,616
Other institutions	5,503	5,411	–	–	5,411	1,414
Banks	71,578	77,327	31	362	77,720	20,011
Corporates	195,294	190,415	3,411	–	193,826	91,585
<b>Total institutional credit exposures</b>	<b>336,670</b>	<b>336,670</b>	<b>3,442</b>	<b>362</b>	<b>340,474</b>	<b>119,626</b>
Residential mortgage	90,150	90,150	–	–	90,150	11,112
Qualifying revolving retail	181	181	–	–	181	300
Other retail	48,457	48,457	–	916	49,373	7,631
<b>Total retail credit exposures</b>	<b>138,788</b>	<b>138,788</b>	<b>–</b>	<b>916</b>	<b>139,704</b>	<b>19,043</b>
Other exposures	–	–	–	7,901	7,901	5,171
<b>Total gross credit exposures</b>	<b>475,458</b>	<b>475,458</b>	<b>3,442</b>	<b>9,179</b>	<b>488,079</b>	<b>143,840</b>
2008 (CHF million)						
Sovereigns	101,441	100,858	–	–	100,858	7,268
Other institutions	5,321	5,860	–	–	5,860	1,649
Banks	93,038	96,651	1	380	97,032	24,336
Corporates	217,445	213,876	2,070	–	215,946	92,914
<b>Total institutional credit exposures</b>	<b>417,245</b>	<b>417,245</b>	<b>2,071</b>	<b>380</b>	<b>419,696</b>	<b>126,167</b>
Residential mortgage	89,201	89,201	–	–	89,201	11,214
Qualifying revolving retail	360	360	–	–	360	548
Other retail	49,077	49,077	–	1,597	50,674	7,183
<b>Total retail credit exposures</b>	<b>138,638</b>	<b>138,638</b>	<b>–</b>	<b>1,597</b>	<b>140,235</b>	<b>18,945</b>
Other exposures	–	–	–	13,100	13,100	9,521
<b>Total gross credit exposures</b>	<b>555,883</b>	<b>555,883</b>	<b>2,071</b>	<b>15,077</b>	<b>573,031</b>	<b>154,633</b>

1 Gross credit exposures are shown pre- and post-substitution as, in certain circumstances, credit risk mitigation is reflected by shifting the counterparty exposure from the underlying obligor to the protection provider.

Gross credit exposures and risk-weighted assets

	2009			2008		
	End of	Monthly average	Risk-weighted assets	End of	Monthly average	Risk-weighted assets
Gross credit exposures (CHF million)						
Loans, deposits with banks and other assets <sup>1</sup>	310,183	343,935	84,311	370,583	333,981	87,782
Guarantees and commitments	50,685	40,996	18,396	38,637	58,839	11,863
Securities financing transactions	35,033	37,366	3,997	29,980	42,342	3,713
Derivatives	92,178	111,476	37,136	133,831	135,609	51,275
<b>Total</b>	<b>488,079</b>	<b>533,773</b>	<b>143,840</b>	<b>573,031</b>	<b>570,771</b>	<b>154,633</b>

1 Includes interest bearing deposits with banks, banking book loans, available-for-sale debt securities and other receivables.

Geographic distribution of gross credit exposures

end of	Switzerland	EMEA	Americas	Asia Pacific	Total
2009 (CHF million)					
Loans, deposits with banks and other assets <sup>1</sup>	139,870	81,775	66,376	22,162	310,183
Guarantees and commitments	6,497	13,976	28,765	1,447	50,685
Securities financing transactions	8,784	9,785	15,689	775	35,033
Derivatives	5,503	48,039	29,599	9,037	92,178
<b>Total</b>	<b>160,654</b>	<b>153,575</b>	<b>140,429</b>	<b>33,421</b>	<b>488,079</b>
2008 (CHF million)					
Loans, deposits with banks and other assets <sup>1</sup>	138,245	121,652	90,828	19,858	370,583
Guarantees and commitments	6,785	11,917	17,832	2,103	38,637
Securities financing transactions	3,790	12,521	13,154	515	29,980
Derivatives	9,781	67,030	45,330	11,690	133,831
<b>Total</b>	<b>158,601</b>	<b>213,120</b>	<b>167,144</b>	<b>34,166</b>	<b>573,031</b>

The geographic distribution is based on the country of incorporation or the nationality of the counterparty, shown pre-substitution.

1 Includes interest bearing deposits with banks, banking book loans, available-for-sale debt securities and other receivables.

Industry distribution of gross credit exposures

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end of	Financial institutions	Commercial	Consumer	Public authorities	Total
2009 (CHF million)					
Loans, deposits with banks and other assets <sup>1</sup>	26,490	127,728	99,663	56,302	310,183
Guarantees and commitments	1,771	47,246	1,282	386	50,685
Securities financing transactions	11,308	20,750	34	2,941	35,033
Derivatives	36,488	43,905	1,521	10,264	92,178
<b>Total</b>	<b>76,057</b>	<b>239,629</b>	<b>102,500</b>	<b>69,893</b>	<b>488,079</b>
2008 (CHF million)					
Loans, deposits with banks and other assets <sup>1</sup>	30,707	150,876	97,444	91,556	370,583
Guarantees and commitments	6,744	30,840	892	161	38,637
Securities financing transactions	8,297	19,329	86	2,268	29,980
Derivatives	51,904	65,492	1,773	14,662	133,831
<b>Total</b>	<b>97,652</b>	<b>266,537</b>	<b>100,195</b>	<b>108,647</b>	<b>573,031</b>

Exposures are shown pre-substitution.

<sup>1</sup> Includes interest bearing deposits with banks, banking book loans, available-for-sale debt securities and other receivables.

Remaining contractual maturity of gross credit exposures

end of	within 1 year <sup>1</sup>	within 1-5 years	Thereafter	Total
2009 (CHF million)				
Loans, deposits with banks and other assets <sup>2</sup>	178,794	95,560	35,829	310,183
Guarantees and commitments	19,579	30,026	1,080	50,685
Securities financing transactions	35,033	0	0	35,033
Derivatives	30,264	60,826	1,088	92,178
<b>Total</b>	<b>263,670</b>	<b>186,412</b>	<b>37,997</b>	<b>488,079</b>
2008 (CHF million)				
Loans, deposits with banks and other assets <sup>2</sup>	226,196	104,331	40,056	370,583
Guarantees and commitments	15,787	19,528	3,322	38,637
Securities financing transactions	29,980	0	0	29,980
Derivatives	42,110	84,904	6,817	133,831
<b>Total</b>	<b>314,073</b>	<b>208,763</b>	<b>50,195</b>	<b>573,031</b>

<sup>1</sup> Includes positions without agreed residual contractual maturity. <sup>2</sup> Includes interest bearing deposits with banks, banking book loans, available-for-sale debt securities and other receivables.

## Portfolios subject to PD/LGD approach

### Rating models

Rating models are based on statistical data and are subject to a thorough review before implementation. Each credit rating model has been developed by Credit Risk Management (CRM) and has been independently validated by Risk Measurement and Management prior to use within the Basel II regulatory capital calculation, and thereafter on a regular basis. To ensure that ratings are consistent and comparable across all businesses, we have used an internal rating scale which is benchmarked to an external rating agency using the historical PD associated with external ratings.

At the time of initial credit approval and review, relevant quantitative data (such as financial statements and financial projections) and qualitative factors relating to the counterparty are used in the models and result in the assignment of a credit rating or PD, which measures the counterparty's risk of default over a one-year period.

New or materially changed rating models are submitted for approval to the Risk Processes and Standards Committee (RPSC) prior to implementation. RPSC reviews the continued use of existing models on an annual basis.

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

### Descriptions of the rating processes

For the purposes of internal ratings, we have developed a set of credit rating models tailored for different internal client segments in both Investment Banking and Private Banking (e.g., international corporates, financial institutions, asset finance, small and medium-sized entities, commodity traders, residential mortgages, etc.) and transaction types.

Counterparty and transaction rating process – international corporates, banks and sovereigns (primarily in the Investment Banking division)

Internal ratings are based on the analysis and evaluation of both quantitative and qualitative factors. The specific factors analyzed are dependent on the type of counterparty. The analysis emphasizes a forward looking approach, concentrating on economic trends and financial fundamentals. Analysts make use of peer analysis, industry comparisons, other quantitative tools and the judgment of credit experts.

For structured and asset finance deals, the approach is more quantitative. The focus is on the performance of the underlying assets, which represent the collateral of the deal. The ultimate rating is dependent upon the expected performance of the underlying assets and the level of credit enhancement of the specific transaction. Additionally, a review of the originator and/or servicer is performed. External ratings and research (rating agency and/or fixed income and equity), where available, are incorporated into the rating justification, as is any available market information (e.g., bond spreads, equity performance).

Transaction ratings are based on the analysis and evaluation of both quantitative and qualitative factors. The specific factors analyzed include seniority, industry and collateral. The analysis emphasizes a forward looking approach.

Counterparty and transaction rating process – Swiss corporates, mortgages and other retail (primarily in the Private Banking division)

For Swiss corporates and mortgage lending, the statistically derived rating models, which are based on internal data history of quantitative and qualitative factors, are supplemented by the judgment of credit experts. For mortgages, information about the real estate property, including loan-to-value ratio, is also considered. Collateral loans, which form the largest part of "other retail", are treated according to Basel II rules with pool PD and pool LGD based on historical loss experience. Most of the collateral loans are loans collateralized by securities.

As a rule, the allocation of exposures to institutional or retail as outlined in the following tables is based on the different rating models, but also takes into account further explicit regulatory rules.

Relationship between PD bands and counterparty ratings

Counterparty ratings	PD bands (%) <sup>1</sup>	
	2009	2008
AAA	0.000-0.023	0.000-0.022
AA	0.023-0.042	0.022-0.035
A	0.042-0.099	0.035-0.093
BBB	0.099-0.497	0.093-0.476
BB	0.497-2.471	0.476-2.443
B or lower	2.471-99.999	2.443-99.999
Default (net of specific provisions)	–	–

1 PD bands are subject to slight changes over time as a result of routine recalibrations of PD parameters.

Institutional credit exposures by counterparty rating under PD/LGD approach

end of 2009	Total exposure (CHF m)	Exposure-weighted average LGD (%) <sub>1</sub>	Exposure-weighted average risk weight (%) <sub>2</sub>	Undrawn commitments (CHF m)
<b>Sovereigns</b>				
AAA	45,229	16.42	2.89	3
AA	12,807	44.43	15.66	193
A	2,615	52.58	16.92	34
BBB	1,963	55.46	44.18	–
BB	425	46.10	98.33	36
B or lower	476	49.62	252.14	–
Default (net of specific provisions)	2	–	–	–
<b>Total credit exposure</b>	<b>63,517</b>	–	–	<b>266</b>
Exposure-weighted average CCF (%) <sup>3</sup>	99.66	–	–	–
<b>Other institutions</b>				
AAA	–	–	–	–
AA	3,415	51.76	16.74	92
A	513	51.25	29.20	87
BBB	1,272	49.52	33.44	532
BB	207	49.80	88.14	3
B or lower	–	42.41	146.86	–



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Default (net of specific provisions)	4	–	–	–
<b>Total credit exposure</b>	<b>5,411</b>	–	–	<b>714</b>
Exposure-weighted average CCF (%) <sup>3</sup>	83.65	–	–	–
Banks				
AAA	–	–	–	–
AA	23,225	51.31	13.81	23
A	40,205	54.37	19.15	98
BBB	9,826	42.94	38.58	531
BB	2,752	45.38	86.61	35
B or lower	1,093	36.94	136.84	9
Default (net of specific provisions)	226	–	–	10
<b>Total credit exposure</b>	<b>77,327</b>	–	–	<b>706</b>
Exposure-weighted average CCF (%) <sup>3</sup>	95.68	–	–	–
Corporates				
AAA	–	–	–	–
AA	42,752	47.64	12.51	10,976
A	45,935	48.21	20.61	13,226
BBB	43,486	42.33	40.06	11,261
BB	40,031	37.81	74.04	4,324
B or lower	15,510	33.17	117.25	3,028
Default (net of specific provisions)	2,701	–	–	123
<b>Total credit exposure</b>	<b>190,415</b>	–	–	<b>42,938</b>
Exposure-weighted average CCF (%) <sup>3</sup>	82.93	–	–	–
<b>Total institutional credit exposure</b>	<b>336,670</b>	–	–	<b>44,624</b>

1 The methodology applied in 2009 has been amended so that markdowns on fair valued loans are now considered as an adjustment to the LGD rather than as an offset to the expected loss. 2 The exposure-weighted average risk weights in percentage terms is the multiplier applied to regulatory exposures to derive risk-weighted assets, and may exceed 100%. 3 Calculated before credit risk mitigation.

Institutional credit exposures by counterparty rating under PD/LGD approach (continued)

	Total exposure (CHF m)	Exposure-weighted average LGD (%)	Exposure-weighted average risk weight (%)	Undrawn commitments (CHF m)
end of 2008				
Sovereigns				
AAA	90,460	13.77	2.56	23
AA	6,330	52.64	23.73	41

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A	935	52.77	31.29	—
BBB	327	54.60	33.65	—
BB	2,357	53.35	79.96	—
B or lower	438	51.53	168.01	—
Default (net of specific provisions)	11	—	—	—
<b>Total credit exposure</b>	<b>100,858</b>	—	—	<b>64</b>
Exposure-weighted average CCF (%) <sup>1</sup>	99.93	—	—	—
Other institutions				
AAA	—	—	—	—
AA	3,734	53.09	22.94	126
A	730	51.62	23.11	41
BBB	1,285	49.96	32.92	548
BB	104	54.70	96.20	2
B or lower	—	39.98	139.06	—
Default (net of specific provisions)	7	—	—	—
<b>Total credit exposure</b>	<b>5,860</b>	—	—	<b>717</b>
Exposure-weighted average CCF (%) <sup>1</sup>	83.13	—	—	—
Banks				
AAA	—	—	—	—
AA	52,299	52.66	15.17	2,673
A	32,742	52.56	18.48	1,396
BBB	6,041	54.13	46.60	550
BB	3,732	53.75	95.78	102
B or lower	1,762	43.85	137.38	57
Default (net of specific provisions)	75	—	—	2
<b>Total credit exposure</b>	<b>96,651</b>	—	—	<b>4,780</b>
Exposure-weighted average CCF (%) <sup>1</sup>	99.56	—	—	—
Corporates				
AAA	—	—	—	—
AA	66,801	48.96	13.93	12,775
A	36,421	50.40	19.74	4,381
BBB	48,684	40.08	33.48	6,467
BB	44,085	37.17	64.49	3,552
B or lower	16,280	39.92	137.98	688
Default (net of specific provisions)	1,605	—	—	33

<b>Total credit exposure</b>	<b>213,876</b>	<b>-</b>	<b>-</b>	<b>27,896</b>
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