CREDIT SUISSE

Credit Suisse International

(formerly known as Credit Suisse First Boston International)

Annual Report 2005

COMPANY REGISTRATION NUMBER: 2500199

BOARD OF DIRECTORS

Michael G Philipp (Chairman and CEO)

Jeremy J Bennett

Stephen Dainton (Alternate to David Mathers)

Gael de Boissard (Alternate to Jeremy Bennett)

Renato Fassbind (Non Executive)

Tobias Guldimann (Non Executive)

Hamish Leslie-Melville (Alternate to Marco Mazzucchelli)

David R Mathers

Marco G Mazzucchelli

Costas P Michaelides

COMPANY SECRETARY

Paul Hare

The Chairman presents the Operating and Financial Review for the year ended 31 December 2005. Discussed below are the results for the year, the business strategy and the regulatory framework.

Strategy

Credit Suisse International ('CSi' or the 'Bank') is a global market leader in over-the-counter derivative products from the standpoints of counterparty service, innovation, product range and geographic scope of operation. CSi offers a range of interest rate, currency, equity, commodity and emerging market/credit-related over-the-counter 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.

International Financial Reporting Standards

CSi's 2005 financial statements have been prepared in accordance with International Financial Reporting Standards (IFRSs) as adopted for use in the European Union. IFRS implementation activities included revising processes, systems and reporting structures, Group-wide IFRS training and analysis of new standards and amendments to existing standards.

Business Review

The total operating income for CSi, its subsidiaries and special purpose entities (together referred to as the 'Group') for 2005 was US$1,461m (2004:US$1,446m). Profit attributable to Shareholders for the year was US$81m (2004: US$206m).

An analysis of total operating income by business segment is given below:

	2005 US$M	**2004 US$M**
Fixed Income Division	1,333	1,058
Equity Division	114	372
Other	14	16
	1,461	1,446

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.

FID has shown a significant favourable movement last year, with strong growth particularly in the European Exotics and Counterparty Credit Risk Management business lines.

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.

The Equity division has seen a decline in operating income in comparison to last year mainly due to unfavourable trading conditions in European Structured Derivatives and management of longer term risk positions. This was accentuated by allowing unobservable inception gains being recognised in the income statement in 2004.

Other reflects Investment Banking Division (IBD) activities which 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 as well as the provision of capital raising services, in conjunction with the Equity and Fixed Income divisions and also includes operating income that is not specifically allocated to any business divisions.

CSi's cost base for the year was US$1,476m (2004:US$1,145m). The increase has been due to higher compensation, overhead allocations and support costs.

Regulatory

CSi is regulated by the Financial Services Authority ('FSA').

CSi maintains an actively managed capital base to support the risks inherent in the business. At 31 December 2005, the total Risk Weighted Assets based on FSA rules were US$49.9billion (2004: US$44.3billion), and the Risk Asset Ratio was 13.5% (2004: 14.1%) on total regulatory capital. The 2004 comparatives have been restated following amendments to the regulatory capital calculations in connection with credit derivatives.

DIRECTORS' REPORT FOR THE YEAR ENDED 31 DECEMBER 2005

The Directors present their Report and the Financial Statements for the year ended 31 December 2005.

Change of Name

Credit Suisse International (CSi) changed its name from Credit Suisse First Boston International on 16 January 2006.

Activities

CSi is an unlimited liability company and is authorised under the Financial Services and Markets Act 2000 by the Financial Services Authority. Its principal business is banking, including the trading of derivative products linked to interest rates, foreign exchange, equities, commodities and credit.

The primary objective of the Bank is to provide comprehensive treasury and risk management derivative product services. The Bank has established a significant presence in global derivative markets through offering a full range of derivative products and continues to develop new products in response to the needs of its customers and changes in underlying markets.

Results

The Group's profit after tax for the year was US$81m (2004: US$206m). Interim dividends of US$49m (2004: US$24m) have been paid for the year ended 31 December 2005. No final dividend has been proposed (2004: US$Nil).

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 2004 and up to the date of this report are as follows:

Appointments:	
Michael G Philipp (CEO)	1 February 2005
Jeremy J Bennett	22 March 2005
Christopher R Carter	22 March 2005
David R Mathers (Alternate to Christopher R Carter)	25 October 2005
Gael de Boissard (Alternate to Jeremy Bennett)	9 December 2005
Stephen Dainton (Alternate to David Mathers)	9 December 2005
Hamish Leslie-Melville (Alternate to Marco Mazzucchelli)	9 December 2005
David R Mathers	9 December 2005
Resignations:	
Trevor Price	31 January 2005
Brady W Dougan	1 February 2005
Ian C Carter	22 March 2005
James E Kreitman	22 March 2005
James H Leigh-Pemberton	22 March 2005
Christopher R Carter	9 December 2005
David R Mathers (Alternate to Christopher R Carter)	9 December 2005
Richard E Thornburgh	31 December 2005

None of the directors who held office at the end of the financial year was beneficially interested, at any time during the year, in the shares of the Bank.

Subsidiary Undertakings and Branches

The Bank, consolidated with the other subsidiary undertakings, detailed in Note 15 to the Financial Statements, is referred to as the 'Group'. Credit Suisse First Boston International Warrants Limited was put into liquidation during 2005 by the Bank. Credit Suisse First Boston International Finance Limited, a Guernsey company, was liquidated on 2 December 2005.

Share Capital

In 2005, there was an increase in authorised and issued share capital. On 17 November 2005, 600,000,000 Class D Preferences Shares of US $1 each were authorised of which 300,000,000 were issued.

Issues of Medium and Long Term Debt

Issues of medium and long term debt are dealt with in Note 18 to the Financial Statements.

Employee Involvement and Employment of Disabled Persons

The Credit Suisse 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.

In January 2005, the Credit Suisse Group launched a Disability Interest Forum. 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, promotes an environment where disabled employees are supported and are given the opportunity to reach their full potential.

Donations

During the year the Bank made US$23,568 (2004: US$18,000) of charitable donations. There were no political donations made by the Bank during the year (2004: US$Nil).

Auditors

Pursuant to Section 386 of the Companies Act 1985, KPMG Audit Plc continues in office as the Bank's auditors.

International Financial Reporting Standards

The Group's 2005 financial statements have been prepared in accordance with International Financial Reporting Standards (IFRSs) as adopted for use in the EU. IFRS implementation activities included revising processes, systems and reporting structures, Group-wide IFRS training and analysis of new standards and amendments to existing standards.

Subsequent Events

Since the end of 2005, the total authorised capital of the Bank increased from US$3,300,000,000 to US$4,000,000,000 by the creation of a new class of shares being 700,000,000 Class E Preference Shares of US$1 each, of which US$535,000,000 was issued to Credit Suisse (International) Holding AG (IHAG).

In addition, the Bank also executed a new subordinated debt agreement over US$2,000m with IHAG, of which US$265m was issued.

By Order of the Board

Paul Hare
Company Secretary

One Cabot Square
London E14 4QJ
15 March 2006

STATEMENT OF DIRECTORS' RESPONSIBILITIES

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

UK Company law requires the directors to prepare Bank and Group financial statements for each financial year. Under that law, the directors have elected to prepare both the Bank and Group financial statements in accordance with IFRSs as adopted by the EU.

The Bank and Group financial statements are required by law and IFRSs as adopted by the EU to present fairly the financial position of the Bank and Group and the performance for that period; the Companies Act 1985 provides in relation to such financial statements that references in the relevant part of that Act to financial statements giving a true and fair view are references to their achieving a fair presentation.

In preparing each of the Bank and Group financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgments 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 Bank and Group will continue in business.

The directors are responsible for keeping proper accounting records that disclose with reasonable accuracy at any time the financial position of the Bank and enable them to ensure that its financial statements comply with the Companies Act 1985. They have a 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.

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

INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF CREDIT SUISSE INTERNATIONAL (FORMERLY KNOWN AS CREDIT SUISSE FIRST BOSTON INTERNATIONAL)

We have audited the Bank and Group financial statements (the 'financial statements') of Credit Suisse International (formerly known as Credit Suisse First Boston International) ('the Bank') for the year ended 31 December 2005 which comprise the Group Income Statement, the Bank and Group Balance Sheets, the Bank and Group Cash Flow Statements, the Bank and Group Statements of Changes in Shareholders' Equity and the related notes. These financial statements have been prepared under the accounting policies set out therein.

This report is made solely to the Bank's members, as a body, in accordance with section 235 of the Companies Act 1985. Our audit work has been undertaken so that we might state to the Bank's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Bank and the Bank's members as a body, for our audit work, for this report, or for the opinions we have formed.

Respective responsibilities of directors and auditors

The directors' responsibilities for preparing the Annual Report and the financial statements in accordance with applicable law and International Financial Reporting Standards (IFRSs) as adopted by the EU are set out in the Statement of Directors' Responsibilities on page 7.

Our responsibility is to audit the financial statements in accordance with relevant legal and regulatory requirements and International Standards on Auditing (UK and Ireland).

We report to you our opinion as to whether the financial statements give a true and fair view and are properly prepared in accordance with the Companies Act 1985 and Article 4 of the IAS Regulation. We also report to you if, in our opinion, the Directors' Report is not consistent with the financial statements, if the Bank has not kept proper accounting records, if we have not received all the information and explanations we require for our audit, or if information specified by law regarding directors' remuneration and other transactions is not disclosed.

We read the other information contained in the Annual Report and consider whether it is consistent with the audited financial statements. We consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the financial statements.

Basis of audit opinion

We conducted our audit in accordance with International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates or judgements made by the directors in the preparation of the financial statements and of whether the accounting policies are appropriate to the Bank's and Group's circumstances, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or other irregularity or error. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the financial statements.

Opinion

In our opinion the financial statements:

- give a true and fair view, in accordance with IFRSs as adopted by the EU, of the state of the Bank's and Group's affairs as at 31 December 2005 and of the Group's profit for the year then ended; and
- the financial statements have been properly prepared in accordance with the Companies Act 1985 and Article 4 of the IAS Regulation.

KPMG Audit Plc

KPMG Audit Plc
Chartered Accountants
Registered Auditor
London
15 March 2006

CONSOLIDATED INCOME STATEMENT FOR THE YEAR ENDED 31 DECEMBER 2005

	Note	2005 US$M	2004 US$M
Interest income	5	960	678
Interest expense	5	(1,573)	(1,413)
Net interest expense		**(613)**	**(735)**
Net commissions and fees	6	(162)	(109)
Trading revenues	7	2,418	2,462
Other revenues	6	(182)	(172)
Total non interest revenues		**2,074**	**2,181**
Total operating income		**1,461**	**1,446**
Impairment reversal/(charge) on loans and receivables	10	58	(128)
Net operating income		**1,519**	**1,318**
Compensation and benefits	6	(713)	(539)
Other expenses	6	(763)	(606)
Total operating expenses		**(1,476)**	**(1,145)**
Profit before tax		**43**	**173**
Income tax expense	8	38	33
Profit after tax		**81**	**206**

All Profits for both 2005 and 2004 are from Continuing Operations.

The notes on pages 16 to 104 form an integral part of these consolidated financial statements.

CREDIT SUISSE INTERNATIONAL
(FORMERLY KNOWN AS CREDIT SUISSE FIRST BOSTON INTERNATIONAL)
CONSOLIDATED BALANCE SHEET AS AT 31 DECEMBER 2005

	Note	2005 US$M	2004 US$M
Assets			
Cash and due from banks		4,860	1,488
Interest-bearing deposits with banks		601	1,879
Securities purchased under resale agreements and securities borrowing transactions	9	11,032	9,544
Trading assets	7	188,236	73,467
Other financial assets	7	4,815	4,169
Loans and receivables	10	8,131	4,583
Current tax assets		213	89
Deferred tax assets	11	199	110
Other assets	12	16,693	9,547
Intangible assets	14	87	67
Property, plant and equipment	16	359	356
Total assets		**235,226**	**105,299**
Liabilities			
Deposits	17	4,481	2,098
Securities sold under repurchase agreements and securities lending transactions	9	14,052	5,179
Trading liabilities	7	145,699	38,590
Other financial liabilities	7	23,023	-
Short term borrowings		22,097	23,009
Current tax liabilities		38	3
Long term debt	18	5,174	22,251
Other liabilities	19	16,944	10,671
Total liabilities		**231,508**	**101,801**
Shareholders' equity			
Called up share capital	21	1,957	1,657
Share premium account	21	433	433
Retained earnings		1,328	1,408
Total shareholders' equity		**3,718**	**3,498**
Total liabilities and shareholders' equity		**235,226**	**105,299**

The notes on pages 16 to 104 form an integral part of these consolidated financial statements.

Approved by the Board of Directors on 15 March 2006 and signed on its behalf by:

David R Mathers

CREDIT SUISSE INTERNATIONAL
(FORMERLY KNOWN AS CREDIT SUISSE FIRST BOSTON INTERNATIONAL)
BANK BALANCE SHEET AS AT 31 DECEMBER 2005

	Note	2005 US$M	2004 US$M
Assets			
Cash and due from banks		3,765	271
Interest-bearing deposits with banks		601	1,879
Securities purchased under resale agreements and securities borrowing transactions	9	11,032	9,544
Trading assets	7	187,725	73,522
Other financial assets	7	4,815	4,169
Loans and receivables	10	8,136	4,440
Current tax assets		212	89
Deferred tax assets	11	199	110
Other assets	12	17,719	9,589
Investments in subsidiary undertakings	15	27	722
Intangible assets	14	87	67
Property, plant and equipment	16	359	356
Total assets		**234,677**	**104,758**
Liabilities			
Deposits	17	4,302	2,312
Securities sold under resale agreements and securities lending transactions	9	15,471	6,224
Trading liabilities	7	145,652	38,602
Other financial liabilities	7	20,895	-
Short term borrowings		21,398	23,235
Current tax liabilities		42	5
Long term debt	18	5,259	20,598
Other liabilities	19	18,010	10,740
Total liabilities		**231,029**	**101,716**
Shareholders' equity			
Called up share capital	21	1,957	1,657
Share premium account	21	433	433
Retained earnings		1,258	952
Total shareholders' equity		**3,648**	**3,042**
Total liabilities and shareholders' equity		**234,677**	**104,758**

The notes on pages 16 to 104 form an integral part of these consolidated financial statements.

Approved by the Board of Directors on 15 March 2006 and signed on its behalf by:

David R Mathers

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY FOR THE YEAR ENDED 31 DECEMBER 2005

	Attributable to equity holders of the Group			
	Share Capital	Share Premium	Retained Earnings	Total
	US$M	US$M	US$M	US$M
	-	-		
		-	-	
	-	-		
				3,498

	Share Capital	Share Premium	Retained Earnings	Total
	US$M	US$M	US$M	US$M
Restated balance at 1 January 2005 excluding IAS 32/39	1,657	433	1,408	3,498
	-	-		
				3,386
	-	-		
		-	-	
	-	-		
				3,718

There were dividends of US$49m (2004: US$24m) paid during the year, however there were no final dividends proposed or paid in 2005 (2004: US$Nil).

The notes on pages 16 to 104 form an integral part of these consolidated financial statements.

CREDIT SUISSE INTERNATIONAL
(FORMERLY KNOWN AS CREDIT SUISSE FIRST BOSTON INTERNATIONAL)
BANK STATEMENT OF CHANGES IN EQUITY FOR THE YEAR ENDED 31 DECEMBER 2004

	Attributable to equity holders of the Bank			
	Share Capital	Share Premium	Retained Earnings	Total
	US$M	US$M	US$M	US$M
	-	-		
	725	-	-	725
	-	-		
Balance at 31 December 2004				3,042

	Share Capital	Share Premium	Retained Earnings	Total
	US$M	US$M	US$M	US$M
Restated balance at 1 January 2005 excluding IAS 32/39	1,657	433	952	3,042
	-	-		
				2,930
	-	-		
		-	-	
	-	-		
				3,648

There were dividends of US$49m (2004: US$24m) paid during the year, however there were no final dividends proposed or paid in 2005 (2004: US$Nil).

The notes on pages 16 to 104 form an integral part of these consolidated financial statements.

CREDIT SUISSE INTERNATIONAL
(FORMERLY KNOWN AS CREDIT SUISSE FIRST BOSTON INTERNATIONAL)
CONSOLIDATED CASH FLOW STATEMENT FOR THE YEAR ENDED 31 DECEMBER 2005

	Note	2005 US$M	2004 US$M
Operating activities of operations			
Profit before tax for the period		43	173
Adjustments to reconcile net income to net cash provided by/(used in) operating activities			
Non-cash items included in profit before tax and other adjustments:			
Impairment, depreciation and amortisation on property, plant and equipment	16	126	106
Interest accrued on long term debt		71	145
Impairment (reversal)/charge on loans and receivables	10	(58)	128
Loss on sale of investments, property, plant and equipment		-	4
Write down of property, plant and equipment	16	6	-
Foreign exchange (gains)/losses		(192)	816
Net (increase)/decrease in operating assets:			
Securities purchased under resale agreements and securities borrowing transactions		593	(5,238)
Interest bearing deposits with banks		1,278	(1,856)
Trading assets		1,621	(16,569)
Loans and receivables		(3,973)	(1,246)
Other assets		(88)	(1,586)
Other financial assets		309	(1,026)
Net increase/(decrease) in operating liabilities:			
Securities sold under resale agreements and securities lending transactions		6,666	2,100
Other financial liabilities		2,665	-
Deposits		(499)	(2,000)
Short term borrowings		(611)	11,875
Trading liabilities		(8,269)	5,864
Other liabilities		48	2,245
Cash generated /(used in) operating Activities		**(264)**	**(6,065)**
Income taxes paid		(85)	(86)
Net cash flow used in operating activities		**(349)**	**(6,151)**
Investing activities			
Capital expenditure for property, plant and equipment and intangible assets		(155)	(141)
Net cash flow used in investing activities		**(155)**	**(141)**
Financing activities			
Issuances of long term debt		4,162	9,931
Repayments of long term debt		(1,911)	(3,952)
Issuances of preference shares	21	300	725
Interest paid on long term debt		(96)	(93)
Dividends paid	21	(49)	(24)
Net cash flow from financing activities		**2,406**	**6,587**
Net increase in cash and cash equivalents		**1,902**	**295**
Cash and cash equivalents at the beginning of the year (restated, see note 31)		1,634	889
Cash and cash equivalents at the end of the year		**3,536**	**1,184**
Cash and due from banks		4,860	1,488
Demand deposits	17	(1,324)	(304)
Cash and cash equivalents at the end of the year		**3,536**	**1,184**

The notes on pages 16 to 104 form an integral part of these consolidated financial statements.

CREDIT SUISSE INTERNATIONAL
(FORMERLY KNOWN AS CREDIT SUISSE FIRST BOSTON INTERNATIONAL)
BANK CASH FLOW STATEMENT FOR THE YEAR ENDED 31 DECEMBER 2005

	Note	2005 US$M	2004 US$M
Operating activities of operations			
Profit before tax for the period		431	140
Adjustments to reconcile net income to net cash provided by/(used in) operating activities			
Non-cash items included in profit before tax and other adjustments:			
Impairment, depreciation and amortisation on property, plant and equipment	16	126	106
Interest accrued on long term debt		71	145
Impairment (reversal)/charge on loans and receivables	10	(58)	128
Loss on sale of investments, property, plant and equipment		-	4
Write down of property, plant and equipment	16	6	-
Foreign exchange (gain)/loss		(233)	1,448
Net (increase)/decrease in operating assets:			
Securities purchased under resale agreements and securities borrowing transactions		593	(5,238)
Interest bearing deposits with banks		1,278	(1,856)
Trading assets		2,187	(17,418)
Loans and receivables		(4,121)	(1,260)
Other assets		(1,072)	(1,585)
Other financial assets		309	(1,026)
Net increase/(decrease) in operating liabilities:			
Securities sold under resale agreements and securities lending transactions		7,040	3,145
Other financial liabilities		2,190	
Deposits		(880)	(1,426)
Short term borrowings		(1,536)	11,567
Trading liabilities		(8,328)	5,708
Other liabilities		1,046	2,123
Cash generated/(used) in operations activities		**(951)**	**(5,295)**
Income taxes paid		(85)	(86)
Net cash flow used in operating activities		**(1,036)**	**(5,381)**
Investing activities			
Capital expenditure for property, plant and equipment and intangible assets		(155)	(141)
Repatriation of capital in subsidiary		736	45
Net cash flow from/(used in) investing activities		**581**	**(96)**
Financing activities			
Issuances of long term debt		4,749	8,627
Repayments of long term debt		(2,413)	(3,952)
Issuances of preference shares	21	300	725
Interest paid on long term debt		(96)	(93)
Dividends paid	21	(49)	(24)
Net cash flow from /(used in) financing activities		**2,491**	**5,283**
Net increase/(decrease) in cash and cash equivalents		**2,036**	**(194)**
Cash and cash equivalents at the beginning of the year (restated, see note 31)		567	311
Cash and cash equivalents at the end of the year		**2,603**	**117**
Cash and due from banks		3,765	271
Demand deposits	17	(1,162)	(154)
Cash and cash equivalents at the end of the year		**2,603**	**117**

The notes on pages 16 to 104 form an integral part of these consolidated financial statements.

1. General

Credit Suisse International is a Bank domiciled in the United Kingdom. The consolidated financial statements for the year ended 31 December 2005 comprise CSi, its subsidiaries and special purpose entities (together referred to as the 'Group').

The financial statements were authorised for issue by the directors on 15 March 2006.

2. Significant Accounting Policies

a) Statement of compliance

Following the adoption of Regulation EC 1606/2002 on the 19 July 2002 by the European Parliament, the Bank is required to prepare consolidated financial statements in accordance with IFRSs as adopted by the EU, including the standards (IAS/IFRS), as well as the interpretations issued by both the Standing Interpretations Committee (SIC) and the International Financial Reporting Interpretations Committee (IFRIC) as applicable to the Group for financial periods beginning 1 January 2005 and Schedule 9 of the Companies Act 1985 ('the Act').

Pursuant to the exemption provided under the Companies Act 1985 Part VII Section 230, a separate income statement of the Bank has not been included as part of these financial statements.

These are the Group's first consolidated annual financial statements and IFRS 1 has been applied.

An explanation of how the transition to IFRSs has affected the reported financial position and financial performance of the Group is provided in note 31.

b) Basis of preparation

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

The preparation of financial statements in conformity with IFRS requires management to make judgments, 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.

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 accounting policies set out below have been applied consistently to all periods presented in these consolidated financial statements and in preparing an opening IFRS balance sheet at 1 January 2004 for the purpose of the transition to IFRS, with the exception of the policies relating to financial instruments.

2. Significant Accounting Policies (continued)

In respect of financial instruments, the Group has adopted IAS 32 'Financial Instruments: Disclosure and Presentation' and IAS 39 'Financial Instruments: Recognition and Measurement' from 1 January 2005, as adopted by the EU. Comparatives for 2004 have not been restated to reflect the requirements of IAS 32 and IAS 39, as permitted by IFRS 1. Financial instruments in that period are accounted for under UK GAAP in accordance with the accounting policies set out in the consolidated financial statements for the year ended 31 December 2004. Had IAS 32 and IAS 39 been applied in 2004, the impact of transition would have been composed of similar adjustments as presented in note 31.

The Group adopted the amendments to IAS 19 'Employee Benefits – Actuarial Gains and Losses, Group Plans and Disclosures' as of 1 January 2004. IFRS 2 'Share Based Payments' and IFRS 5 'Non-Current Assets Held for Sale and Discontinued Operations' were adopted as of 1 January 2005.

Amendments to IAS 39 'The Fair Value Option' were adopted by the Group as of 1 January 2005, the same date on which the Group commenced applying IAS 32 and IAS 39. The Group did not adopt the amendments to IAS 39/IFRS 4 relating to Financial Guarantee Contracts and has elected not to early adopt the provisions of IFRS 7 'Financial Instruments – Disclosures'.

Had IFRS 7 been early adopted additional disclosures, including further information on fair value hedge accounting and loans and receivables, would have been presented.

The accounting policies have been applied consistently by Group entities.

c) Application of UK GAAP on 2004 comparative figures

Prior to implementation of IFRSs, the Group prepared its financial statements in accordance with UK GAAP. These statements have been prepared in accordance with IFRSs as adopted by the EU for both 2004 and 2005 with the exception of IAS 32 and IAS 39, which are applied starting 1 January 2005 The affected items are as follows (the relevant notes are referred to as applicable):

Income statement positions affected	**Note**
Interest income	5
Interest expense	5
Trading revenues	7
Impairment reversal/(charge) on loans and receivables	10
Balance sheet positions affected	
Cash and due from banks	
Securities purchased under resale agreements and securities borrowing transactions	9
Trading assets	7
Other financial assets	7
Loans and receivables	10
Other assets	12
Deposits	17
Securities sold under resale agreements and securities lending transactions	9
Trading liabilities	7
Other financial liabilities	7
Short term borrowings	
Long term debt	18
Other liabilities	19
Derivatives and hedging activities	25
Guarantees and commitments	26
Fair value of financial instruments	28

2. Significant Accounting Policies (continued)

A description of the UK GAAP measurement basis used for the 2004 comparative figures of the positions mentioned above is found in Note 32.

d) Basis of consolidation

The consolidated financial statements include the results and positions of the Bank, its subsidiaries and special purpose entities. The Group's consolidated financial statements include the Income Statement, Balance Sheets, Cash Flow Statements, Statements of Changes in Shareholders' Equity and the related notes of the Bank, its subsidiaries and special purpose entities.

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. 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 Bank also consolidates special purpose entities (SPEs) when the substance of the relationship between the Bank and the SPE indicates that the SPE is controlled by the Bank in accordance with the Standing Interpretations Committee (SIC) 12.

The effects of intercompany transactions and balances have been eliminated in preparing the consolidated financial statements.

e) Foreign currency

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 balance sheet date are translated to USD at the foreign exchange rate ruling at that date. Foreign exchange differences arising from translation are recognised in the income statement. Non-monetary assets and liabilities denominated in foreign currencies at balance sheet date are not revalued for movements in foreign exchange rates.

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

f) Segmental reporting

The Group reports the results of its operations through four business segments. They are Fixed Income Division, Equity Division and the Other Division.

Fixed Income Division (FID) provides a full range of derivatives 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, futures and OTC equity derivatives.

2. Significant Accounting Policies (continued)

Other reflects Investment Banking Division (IBD) activities which 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 as well as the provision of capital raising services, in conjunction with the Equity and Fixed Income divisions and also includes operating income that is not specifically allocated to any business divisions.

Where possible, common costs have been allocated to the business segments on an actual usage basis. Where this is not possible, an allocation methodology has been applied.

g) Cash and cash equivalents

For the purpose of preparation and presentation of the cash flow statement, cash and cash equivalents are defined as short-term, highly liquid instruments with original maturities of three months or less and that are held for purposes of cash management.

h) 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 balance sheet as an asset. In repurchase agreements, the cash received, including accrued interest, is recognised on the balance sheet as a liability.

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

Interest earned on reverse repurchase agreements and interest incurred on repurchase agreements is recognised on an effective yield basis and recorded as interest income or interest expense for agreements that are not classified as other financial assets/liabilities.

i) 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 balance sheet 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 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 are recognised on an effective yield basis and recorded as interest income or interest expense except for transactions classified as Other financial assets/liabilities.

j) Trading assets and liabilities

Trading assets and liabilities include mainly debt and equity securities, derivative instruments and loans. These assets and liabilities are included as part of the trading portfolio based on management's intent to sell the assets or repurchase the liabilities in the near term, and are carried at fair value. Transactions with a normal settlement period are recorded on a trade date basis.

2. Significant Accounting Policies (continued)

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 models 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.

k) Derivative financial instruments and hedging

All freestanding derivative contracts are carried at fair value in the balance sheet regardless of whether these instruments are held for trading or risk management purposes. 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 income statement unless, consistent with the provisions of IAS 39, the fair value option is elected (as described in note l below), in which case the entire instrument is to be recorded at fair value with changes in fair value recorded in the income statement. Once separated, the derivative is recorded in the same line in the consolidated balance sheet as the host instrument.

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. Changes in realised and unrealised gains and losses and interest flows are included in *Trading Revenues*. Derivative contracts, which are both designated and qualify for hedge accounting, are reported in the balance sheet as *Other Assets* or *Other Liabilitie*s 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 over-the-counter (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.

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

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

2. Significant Accounting Policies (continued)

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 income statement 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 in *Trading Revenues*.

When the Group discontinues fair value hedge accounting because it determines that the derivative no longer qualifies as an effective fair value hedge, the derivative will continue to be carried on the balance sheet 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 statement of income over the remaining life of the hedged item according to the effective interest method. Any unamortised fair value adjustment on an interest-bearing instrument is to be reclassified to the statement 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 income statement when the hedged item affects net income, which is usually when the instrument is disposed of.

l) Financial instruments designated as held at fair value through profit and loss

The Group has adopted the EU endorsed Fair Value Option amendment of IAS 39 which allows an entity to designate financial assets and liabilities as held at fair value through profit and loss either at transition to IFRS on 1 January 2005 or at the inception of the trade from that date forward. Financial assets and liabilities are only designated as held at fair value through profit and 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 a measurement or recognition inconsistency (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 instrument elected under this criterion, the business maintains a documented strategy that states that these instruments are risk managed on a fair value basis. Additionally, management rely upon the fair value of these instruments in evaluating the performance of the business.

The Fair Value Option has been applied to certain debt instruments, equity securities and loans and the related assets and liabilities are presented as 'Other financial assets' or 'Other financial liabilities' in the balance sheet. Once designated this election is irrevocable. All fair value changes related to these financial instruments held at fair value through profit and loss are recognised in *Trading Revenues*.

2. Significant Accounting Policies (continued)

m) Derecognition

The Group enters into transactions where it transfers assets recognised on its balance sheet, 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 balance sheet. 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.

The Group derecognises financial liabilities when they are extinguished. Where the Group has a financial liability and this instrument is exchanged for a new instrument with the same counterparty, which is substantially different, or when an existing instrument classified as a financial liability is substantially modified, the old instrument is deemed to be extinguished and a new financial liability is recognised. Any gain or loss due to derecognition of the extinguished instrument is recorded in the income statement. 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.

n) Loans and receivables

Loans and receivables are carried at amortised cost net of deferred loan origination fees and direct loan origination costs on originated loans. Interest income is accrued on the unpaid principal balance and net deferred premiums/discounts and fees/costs are amortised on an effective yield basis on the resulting balance for all loans and receivables.

o) Impairment reversal/(charge) on loans and receivables

The Group assesses at each balance sheet date whether there is objective evidence that a loan position or a portfolio of loans is impaired. An 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.

Many factors can affect the Group's estimate of the impairment losses on loans and receivables, including volatility of default probabilities, rating migrations and loss severity. The estimation of this component of the impairment for the portfolio involves applying historical loss experience, adjusted to reflect current market conditions, to homogeneous loans based on risk rating and product type. To estimate this component of the impairment for loans, the Group segregates loans by risk, industry or country rating. Excluded from this estimation process are loans where a specifically identified loss has been included in the specific component of the allowance for loan losses.

The amount of impairment loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows discounted at the asset's original effective interest rate. The amount of the loss is recognised in the income statement.

The methodology and assumptions used for estimating future cash flows are reviewed regularly to reduce any differences between loss estimates and actual loss experience.

An allowance for impairment is reversed only when the credit quality has improved such that there is reasonable assurance of timely collection of principal and interest in accordance with the original contractual terms of the claim agreement.

2. Significant Accounting Policies (continued)

p) Netting

The Group only offsets financial assets and liabilities and presents the net amount in the balance sheet 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 are 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 to offset transactions falling under Master Netting Agreements.

q) Income taxes

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

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

Deferred tax is provided using the balance sheet liability method, providing for temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and their tax-base. The principal temporary differences arise from the following: depreciation of property, plant and equipment, revaluation of certain financial assets and liabilities including derivative contracts and other employee compensation and benefits. The amount of deferred tax provided is based on the amount at which it is expected to recover or settle the carrying amount of assets and liabilities on the balance sheet, using tax rates enacted or substantively enacted at the balance sheet date.

A deferred tax asset is recognised only to the extent that it is probable that future taxable profits will be available against which the asset can be utilised. Deferred tax assets are reduced to the extent that it is no longer probable that the related tax benefit will be realised.

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 8.

r) Intangible assets

Intangible assets consist primarily of internally developed software, which is capitalised based on its ability to generate future economic benefits and on the ability to reliably measure its associated costs.

Intangible assets are stated at cost less accumulated depreciation and impairment losses, and are depreciated over an estimated useful life of 3 years using the straight-line method upon completion/utilisation. The amortisation of the intangible assets is included in the *Other expenses* line in the income statement

2. Significant Accounting Policies (continued)

s) Property, plant and equipment

Property, plant and equipment are stated at historical cost less depreciation. 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 income statement during the financial period in which they are incurred. Depreciation on other assets is calculated using the straight-line method to allocate their cost to their residual values over their estimated useful lives, as follows:

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

The assets' residual values and useful lives are reviewed and adjusted, if appropriate, at each balance sheet 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 income statement.

t) 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 or any 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.

u) Retirement benefit costs

The Group has both defined contribution and defined benefit pension plans. The defined benefit plans are 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 income statement as incurred.

In accordance with the provisions of IAS 19 for defined benefit plans that share risks between various entities under common control, no retirement benefit obligation is recognised in the balance sheet of the Bank and defined contribution accounting is applied, as the Bank is not the sponsoring entity. The Group's share of the retirement benefit obligation is instead recognised in the balance sheet of the sponsoring entity, Credit Suisse Securities (Europe) Limited, which is external to the Group but is a related party due to both entities being owned by Credit Suisse Group.

2. Significant Accounting Policies (continued)

v) Contingent liabilities

Contingent liabilities are not recognised because their 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. A contingent liability is not recognised as a liability but may only be disclosed. However, provisions are recognised (assuming that a reliable estimate can be made) if they are current obligations and it is probable that an outflow of resources embodying economic benefits will be required to settle the obligations.

w) Share-based payments

The Bank has applied the requirements of IFRS 2 'Share-based Payments'. In accordance with the transitional provisions, IFRS 2 has been applied to all grants of equity instruments after 7 November 2002 that were unvested as at 1 January 2005, of which the corresponding expense was recorded in 2004.

The Bank grants shares in its ultimate parent company Credit Suisse Group to certain employees. The Bank purchases Credit Suisse Group ('CSG') shares from Credit Suisse (International) Holding AG, another CSG company, upon settlement and then transfers those shares to its employees.

This arrangement has been classified as a cash-settled share-based payment due to the Bank's obligation to settle the liability by the delivery of an asset that is not equity instruments of the Bank. A liability equal to the portion of the services received is recognised at the current market value determined at each balance sheet date. The expense for share-based payments is determined by treating each tranche as a separate grant of share awards unless the employee is eligible for early retirement or retirement before the end of the vesting period, in which case recognition of the expense would be accelerated over the shorter period.

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 other financial assets/liabilities. These are recorded in *Trading Revenues.*

y) Commissions and fees

Fee revenue is recognised when all of the following criteria have been met: persuasive evidence of an agreement exists, services have been rendered, the price is fixed or determinable and collectability is reasonably assured. Commissions and fees earned for investment and portfolio management, customer trading and custody services are recognised at the time or over the period, respectively, that the related service is provided. Revenues from underwriting and fees from mergers and acquisitions and other corporate finance advisory services are recorded at the time when the underlying transactions are substantially completed, as long as there are no other contingencies associated with the fees.

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.

2. Significant Accounting Policies (continued)

z) Operating leases

The leases entered into by the Group are exclusively operating leases. The total payments made under operating leases are charged to the income statement on a straight-line basis over the period of the lease. When an operating lease is terminated before the lease period has expired, any early termination payment required to be made to the lessor is recognised as an expense in the period in which termination takes place.

aa) Dividends

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

3. Critical Accounting Estimates and Judgements in Applying Accounting Policies

The Group makes estimates and assumptions that affect the reported amounts of assets and liabilities within the next financial year. Estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

Fair Value

As is the normal practice in the industry, the carrying values the Group reports in the consolidated financial statements with respect to financial instruments owned and financial instruments sold but not yet purchased are in most cases based on fair value, with the related unrealised gains or losses included in the income statement. Fair value may be objective, as is the case for exchange-traded instruments, for which quoted prices in price-efficient and liquid markets generally exist, or as is the case where a financial instrument's fair value is derived from actively quoted prices or pricing parameters or alternative pricing sources with a reasonable level of price transparency. For financial instruments that trade infrequently and have little price transparency, fair value may be subjective and require varying degrees of judgement depending on liquidity, concentration, uncertainty of market factors, pricing assumptions and other risks affecting the specific instrument.

Uncertainty of pricing assumptions and liquidity are features of both derivative and non-derivative transactions. These features have been considered as part of the valuation process. As a result of these uncertainties, the Group does not recognise a dealer profit or unrealised gain or loss at the inception of a derivative or non-derivative transaction unless the valuation underlying the unrealised gain or loss is evidenced by quoted market prices in an active market, observable prices of other current market transactions, or other observable data supporting a valuation technique in accordance with IAS 39 'Financial Instruments Recognition and Measurement' AG 76. The principles of IAS 39 'Financial Instruments Recognition and Measurement' AG 76 have been applied to transactions entered into after 1 January 2004.

3. Critical accounting estimates and judgements in applying accounting policies (continued)

Litigation contingencies

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, our defences and our experience in similar cases or proceedings. 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.

Allowances and Impairment Losses on 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 balance sheet date. These allowances are for probable 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 probable inherent loss. 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.

Income taxes

Deferred tax valuation

Deferred tax assets and liabilities are recognised to reflect the estimated amounts of income tax recoverable/payable in future periods in respect of temporary differences and unused carry forward of tax losses and credits. For temporary differences, a deferred tax asset is recognised to the extent that it is probable that taxable income will be available against which the deductible temporary difference can be utilised. Similarly, a deferred tax asset is recognised on unused carry forward tax losses and credits to the extent that it is probable that future taxable profits will be available against which the unused carry forward tax losses and credits can be utilised.

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

3. Critical accounting estimates and judgements in applying accounting policies (continued)

Tax contingencies

Significant judgement is required in determining the effective tax rate and in evaluating certain tax positions. The Group accrues for tax contingencies despite the belief that positions taken in tax returns are always fully supportable. Tax contingency accruals are adjusted due to changing facts and circumstances, such as case law, progress of 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.

Share-based payments

The Group uses the liability method to account for its share based compensation plans, which requires the Group's current obligation under these plans to be recorded at estimated fair value. The parameters the Group incorporates into the valuation include both internal expectations of future performance of the Credit Suisse Group, which is based on management's assessment of current market conditions, as well as market expectations. 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.

Retirement benefit costs

The following relates to the assumptions Credit Suisse Securities (Europe) Ltd (CSS (Europe) Ltd), 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 an extensive use of assumptions, which include the discount rate, expected return on plan assets and rate of future compensation increases as determined by CSS (Europe) Ltd. Management determines these assumptions based upon currently available market and industry data and 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 CSS (Europe) Ltd 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.

CSS (Europe) Ltd is required to estimate the expected return on plan assets, which is then used to compute 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. 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 either upon 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, CSS (Europe) Ltd takes into consideration the relationship between the corporate bonds and the timing and amount of the future cash outflows on its benefit payments.

4. Segmental Analysis

The Group has defined the primary segment reporting format as business segments and the secondary segment reporting format as geographical segments.

Primary segmental reporting

As at 31 December 2005	**Fixed Income Division US$M**	**Equity Division US$M**	**Other US$M**	**Group US$M**
Total operating income	1,333	114	14	1,461
Profit/(loss) before tax	183	(139)	(1)	43
Income tax expense				38
Profit after tax				**81**
Depreciation	(115)	(10)	(1)	(126)
Impairment reversal on loans and receivables	58	-	-	58
Total assets	200,352	34,702	172	235,226
Total liabilities	197,084	34,332	92	231,508
Shareholders' equity	-	-	-	3,718
Total liabilities and shareholders' equity				**235,226**

As at 31 December 2004	**Fixed Income Division US$M**	**Equity Division US$M**	**Other US$M**	**Group US$M**
Total operating income	1,058	372	16	1,446
Profit before tax	96	75	2	173
Income tax expense				33
Profit after tax				**206**
Depreciation	(79)	(27)	-	(106)
Impairment charge on loans and receivables	(128)	-	-	(128)
Total assets	80,997	23,466	836	105,299
Total liabilities	77,338	23,150	1,313	101,801
Shareholders' equity				3,498
Total liabilities and shareholders' equity				**105,299**

4. Segmental Analysis (continued)

Secondary segmental reporting

As at 31 December 2005	**Americas US$M**	**Europe US$M**	**Asia Pacific US$M**	**Group US$M**
Total operating income	283	956	222	1,461
Total assets	45,494	171,680	18,052	235,226

As at 31 December 2004	**Americas US$M**	**Europe US$M**	**Asia Pacific US$M**	**Group US$M**
Total operating income	396	951	99	1,446
Total assets	10,251	77,022	18,026	105,299

5. Interest Income and Interest Expense

	2005 US$M	**2004 US$M**
Loans and receivables	183	132
Securities purchased under resale agreements and securities borrowing transactions	268	149
Cash collateral paid on OTC derivatives transactions	312	269
Other	197	128
Total Interest income	**960**	**678**
Deposits	(260)	(199)
Short term borrowings	(623)	(354)
Securities sold under resale agreements and securities lending transactions	(270)	(142)
Long term debt	(71)	(450)
Cash collateral received on OTC derivatives transactions	(349)	(268)
Total interest expense	**(1,573)**	**(1,413)**
Net interest expense	**(613)**	**(735)**

The comparative figures for 2004 shown above are based on UK GAAP (see note 2c). The changes to the accounting policies as of 1 January 2005 which arise from the adoption of IFRS are disclosed in note 31.

6. Non-Interest Revenues and Total Operating Expenses

The following table sets forth the details of commissions and fees:

	2005 US$M	2004 US$M
Commissions from lending business:		
Investment and portfolio management activities	77	12
Fees from fiduciary activities		
Underwriting activities	-	-
Brokerage activities	16	16
Fees for other customer services	3	-
Commission and fee income	**96**	**28**
Commissions from lending business		
Investment and portfolio management fees	(72)	(2)
Commissions for other securities business	-	(3)
Commissions and fees from fiduciary activities		
Brokerage fees	(185)	(131)
Fees for other customer services	(1)	(1)
Commission and fee expense	**(258)**	**(137)**
Net Commissions and Fees	**(162)**	**(109)**

Other revenues of US$(182m) (2004: US$(172m)) largely relate to transfer pricing activities within the Group.

The following table sets forth the details of compensation and benefits:

	2005 US$M	2004 US$M
Salaries and bonuses	634	467
Social security	51	45
Pensions	14	27
Other	14	-
Compensation and Benefits	**713**	**539**

The following table sets forth the details of other expenses:

	2005 US$M	2004 US$M
Occupancy expenses	13	14
IT, machinery, etc	140	63
Depreciation expenses	126	106
Provisions	10	7
Commission expenses	81	73
Travel and entertainment	11	10
Audit fees	3	2
Professional services	61	61
Overheads allocated from other group entities	212	237
Other	106	33
Other Expenses	**763**	**606**

7. Trading Activities

The following table sets forth the details of trading-related revenues:

	2005 US$M	2004 US$M
Interest rate products	1,160	709
Equity/Index related products	673	1,073
Foreign exchange products	141	223
Credit related products	458	459
Energy trading and marketing	(4)	-
Other	(10)	(2)
Trading revenues	**2,418**	**2,462**

For the year ended 31 December 2005, the impact to the income statement relating to financial instruments designated as held at fair value through profit and loss was US$174m gain. Included in this total is US$41m of fair value changes of financial liabilities due to changes in the Group's own creditworthiness. As 1 January 2005 is the transition date for IFRS, this balance represents the cumulative changes in fair value due to the Group's own creditworthiness as at 31 December 2005.

	Group 2005 US$M	Group 2004 US$M	Bank 2005 US$M	Bank 2004 US$M
Trading assets				
Debt instruments	20,819	25,344	20,174	26,318
Equity instruments	27,692	20,099	21,205	18,273
Positive replacement values of derivative				
Trading positions	133,584	24,703	134,243	26,024
Other	6,141	3,321	12,103	2,907
Total trading assets	**188,236**	**73,467**	**187,725**	**73,522**

Current Year

Group and Bank	**2005**
Other financial assets	**US$M**
Debt instruments	3,717
Equity Instruments	578
Loans and receivables	520
Total other financial assets	**4,815**

Trading assets and other financial assets include US$6,298m (2004: US$5,561m) which are encumbered.

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

7. Trading Activities (continued)

Prior Year

The 2004 financial assets designated as financial assets where the fair value option was subsequently elected. These have been disclosed under UK GAAP as follows:

Debt securities - non-trading	**2004 US$M**
Issued by public bodies	
- Government securities	3,028
Issued by other issuers	
- listed outside the United Kingdom	313
- unlisted	647
	3,988

Debt Securities include both fixed and variable rate securities.

Non-trading financial assets:

Group and Bank	**Cost US$M**	**Provisions US$M**	**Carrying Value US$M**
At 1 January 2004	2,928	(19)	2,909
Additions	3,660	(8)	3,652
Disposals / maturities	(2,573)	-	(2,573)
As at 31 December 2004	**4,015**	**(27)**	**3,988**

There was no profit on disposal of non-trading financial assets.

Equity shares and other variable yield securities - non-trading	
- listed outside the United Kingdom	181
	181
Total non-trading Debt and Equity securities	**4,169**

Equity shares and other variable yield securities for the Group and the Bank include US$14m issued by the Group's parent and fellow subsidiary undertakings.

Non-trading financial assets

Group and Bank	**Cost US$M**	**Provisions US$M**	**Cost US$M**
At 1 January 2004	181	-	181
As at 31 December 2004	**181**	**-**	**181**

7. Trading Activities (continued)

For loans and receivables designated at fair value, the maximum fair value exposure to credit risk as at 31 December 2005 was US$165m. To mitigate this credit risk, credit default swaps and securities with a fair value of US$104m have been transacted to transfer this risk into the capital markets. The movement in fair values of the loans and receivables designated at fair value during the year ended 31 December 2005 was a US$55m increase, with a corresponding decrease in fair value of the swaps and securities in place to mitigate this risk of US$22m.

	Group 2005 US$M	Group 2004 US$M	Bank 2005 US$M	Bank 2004 US$M
Trading liabilities				
Short positions	11,899	10,978	11,791	10,878
Negative replacement values of derivative trading positions	133,800	27,612	133,861	27,724
Total trading liabilities	**145,699**	**38,590**	**145,652**	**38,602**
Other financial liabilities				
Subordinated loans	1,754	-	1,754	-
Structured notes	19,874	-	17,746	-
Bonds	104	-	104	-
Deposits	1,291	-	1,291	-
Total other financial liabilities	**23,023**	**-**	**20,895**	**-**

The mark to market valuation was calculated using a yield curve which reflected CSi's credit rating in the market. This was achieved by adjusting the relevant yield curve by CSi'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 financial liabilities designated at fair value through profit and loss, the subordinated loans, bonds and loans were elected to alleviate an accounting mismatch, while the structured notes and deposits were elected because they are managed on a fair value basis.

The difference between the carrying amount and the amount that the Group would be contractually required to pay at maturity to the holder of these financial liabilities is US$254m.

The comparative figures for 2004 shown above are based on UK GAAP (see note 2c). The changes to the accounting policies as of 1 January 2005 which arise from the adoption of IFRS are disclosed in note 31.

8. Income Tax Expense

	2005 US$M	2004 US$M
Current tax		
Current tax on profits of the period	81	55
Adjustments in respect of previous periods	(85)	(39)
Total current tax	**(4)**	**16**
Deferred tax		
Origination and reversal of temporary differences	(19)	(45)
Adjustments in respect of previous periods	(19)	(4)
Effect of changes in tax rate or the imposition of new taxes	4	-
Total deferred tax	**(34)**	**(49)**
Income tax expense	**(38)**	**(33)**

Further information about deferred income tax is presented in Note 11. The income tax charge for the year can be reconciled to the profit per the income statement as follows:

	2005 US$M	2004 US$M
Profit before tax	43	173
Profit before tax multiplied by the UK statutory rate of corporation tax at the rate of 30% (2004: 30%)	13	52
Other permanent differences	58	(20)
Effect of different tax rates of operations/subsidiaries operating in other jurisdictions	3	3
Adjustments to current tax in respect of previous periods	(85)	(39)
Adjustments to deferred tax in respect of previous periods	(19)	(4)
Group relief claimed for nil consideration	(12)	(25)
Effect on deferred tax resulting from changes to tax rates	4	-
Income tax expense	**(38)**	**(33)**

9. Securities Borrowed, Lent and Subject to Resale Agreements

The following table summarises the securities purchased/sold under agreements to resell/repurchase, at their respective carrying values:

	Group 2005 US$M	Group 2004 US$M	Bank 2005 US$M	Bank 2004 US$M
Securities purchased under resale agreements	10,247	6,901	10,247	6,901
Deposits paid for securities borrowed	785	2,643	785	2,643
Total	**11,032**	**9,544**	**11,032**	**9,544**

The following table summarise the securities lent or sold under agreements to repurchase, at their respective carrying values:

	Group 2005 US$M	Group 2004 US$M	Bank 2005 US$M	Bank 2004 US$M
Securities sold under resale agreements	7,320	3,539	7,320	3,539
Deposits received for securities lent	6,732	1,640	8,151	2,685
Total	**14,052**	**5,179**	**15,471**	**6,224**

9. Securities Borrowed, Lent and subject to Resale Agreements (continued)

Purchase and repurchase agreements represent collateralised financing transactions used to earn net interest income, increase liquidity or facilitate trading activity. These instruments are collateralised principally by government securities and money market instruments and generally have terms ranging from overnight to payable on demand. The Bank monitors the fair value of securities received or delivered. For securities purchased under resale agreements, the Bank 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 advanced or received and are collateralised principally by cash or marketable securities. Securities borrowing transactions require the deposit of cash or securities as collateral with the lender. For securities lending transactions, the Bank receives cash or securities as collateral in an amount generally in excess of the market value of securities lent. The Bank monitors the market value of securities borrowed and securities lent on a daily basis and additional collateral is obtained as necessary.

Transferred Assets

The following financial assets have been sold or transferred but continue to be recognised in full or to the extent of the Group's continuing involvement:

Nature of Asset	**2005**		**2004**	
	Carrying Amount of asset	**Associated Liability**	**Carrying Amount of asset**	**Associated Liability**
	US$M	**US$M**	**US$M**	**US$M**
Securities lending agreements	101	(101)	113	(113)

The assets in the above table continue to be recognised to the extent shown due to transactions which do not qualify for derecognition of the assets from the balance sheet. The Group remains exposed to all the risks and rewards associated with the relevant portions of the retained assets including market risk, settlement risk, credit risk and country risk.

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.

The comparative figures for 2004 shown above are based on UK GAAP (see note 2c). The changes to the accounting policies as of 1 January 2005 which arise from the adoption of IFRS are disclosed in note 31.

10. Loans and Receivables

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

	Group 2005 US$M	Group 2004 US$M	Bank 2005 US$M	Bank 2004 US$M
Banks	410	34	410	34
Commercial	14	177	19	20
United Kingdom	**424**	**211**	**429**	**54**
Banks	617	670	617	670
Commercial	6,715	3,642	6,715	3,656
Public authorities	407	102	407	102
Foreign	**7,739**	**4,414**	**7,739**	**4,428**
Loans, gross	**8,163**	**4,625**	**8,168**	**4,482**
Allowances and impairment losses on loans and receivables	(32)	(42)	(32)	(42)
Total loans, net	**8,131**	**4,583**	**8,136**	**4,440**

The following table analyses gross loans by maturity:	Group 2005	Group 2004	Bank 2005	Bank 2004
Repayable	US$M	US$M	US$M	US$M
- within 3 months	2,154	2,935	2,154	2,935
- between 3 months and 1 year	1,355	935	1,355	897
- between 1 and 5 years	2,531	532	2,531	427
- greater than 5 years	2,123	223	2,128	223
Loans, gross	**8,163**	**4,625**	**8,168**	**4,482**

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

Group and Bank	**2005 US$M**	**2004 US$M**
Balance 1 January	42	168
Amounts written back/(written off)	48	(251)
Additional allowance for loan losses	23	146
Release of allowances for loan losses	(81)	(18)
Net (reversal)/charge to Income statement	(58)	128
Foreign Currency translation impact	-	(3)
Balance at 31 December	**32**	**42**

The comparative figures for 2004 shown above are based on UK GAAP (see note 2c). The changes to the accounting policies as of 1 January 2005 which arise from the adoption of IFRS are disclosed in note 31.

11. Deferred Taxes

Deferred taxes are calculated on all temporary differences under the liability method using a tax rate of 32% (2004: 33%).

The company operates in a number of jurisdictions. Consequently, the overall rate of future taxes is expected to be a blended rate which is reviewed annually. Using most recent historical data on the income allocated to each jurisdiction, the estimated future blended rate has been reduced from 33% to 32%.

	2005 US$M	2004 US$M
Deferred tax assets	199	110
Net position	**199**	**110**
Restated balance at 1 January under IFRS (excluding IAS 32/39)	110	61
Arising on adoption of IAS 32/39 items – credited to equity during the period	55	-
Restated balance at 1 January under IFRS (including IAS 32/29)	165	61
Credit to income for the year	38	49
Effect of change in tax rate expensed to income statement	(4)	-
At end of the year	**199**	**110**

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

Deferred tax assets

Group and Bank	2005 US$M	2004 US$M
Derivative financial instruments	53	-
Stock based compensation	105	66
Decelerated tax depreciation	21	29
Other provisions	12	15
Other short term temporary differences	5	-
Pensions and other post retirement benefits	3	-
At end of the year	**199**	**110**

The deferred tax credit in the income statement comprises the following temporary differences:

	2005 US$M	2004 US$M
Derivative financial instruments	1	-
Stock based compensation	(39)	(24)
Decelerated tax depreciation	8	(18)
Other provisions	3	(7)
Other short term temporary differences	(4)	-
Pensions and other post retirement benefits	(3)	-
Total deferred tax credit in the income statement	**(34)**	**(49)**

At the balance sheet date, the aggregate amount of temporary differences associated with investments in subsidiaries for which deferred tax liabilities have not been provided was US$8m (2004: US$8m). No liability has been recognised in respect of these differences because the Group is in a position to control the timing of the reversal of the temporary differences and it is probable that such differences will not reverse in the foreseeable future.

12. Other Assets

	Group 2005 US$M	Group 2004 US$M	Bank 2005 US$M	Bank 2004 US$M
Positive replacement values of derivative instruments (held for hedging purposes) (see note 25)	36	470	36	470
Brokerage receivables (see note 13)	8,022	4,596	7,972	4,568
Interest and fees receivable	110	62	1,191	139
Prepaid expenses	1	20	1	20
Other receivables from customers	8,237	4,307	8,237	4,307
Other	287	92	282	85
	16,693	**9,547**	**17,719**	**9,589**

The comparative figures for 2004 shown above for the positive replacement value of derivatives, interest and fee receivables, and other receivables from customers, are based on UK GAAP (see note 2c). The changes to the accounting policies as of 1 January 2005 which arise from the adoption of IFRS are disclosed in note 31.

13. 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, 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.

All brokerage payables and receivables balances are current.

	Group 2005 US$M	Group 2004 US$M	Bank 2005 US$M	Bank 2004 US$M
Due from customers	1,574	1,889	1,530	1,861
Due from banks, brokers and dealers	6,448	2,707	6,442	2,707
Total brokerage receivables	**8,022**	**4,596**	**7,972**	**4,568**

	Group 2005 US$M	Group 2004 US$M	Bank 2005 US$M	Bank 2004 US$M
Due to customers	339	492	339	495
Due to banks, brokers and dealers	3,872	3,177	3,872	3,177
Total brokerage payables	**4,211**	**3,669**	**4,211**	**3,672**

The comparative figures for 2004 shown above are based on UK GAAP (see note 2c). The changes to the accounting policies as of 1 January 2005 which arise from the adoption of IFRS are disclosed in note 31.

14. Intangible Assets

Group and Bank	**Internally Developed Software 2005 US$M**	**Internally Developed Software 2004 US$M**
Cost as at 1 January	67	23
Additions	76	94
Disposals	(56)	(50)
Cost as at 31 December	87	67
Net book value as at 31 December	**87**	**67**

Internally developed software is still work-in-progress and therefore no amortisation charge has been recorded.

15. Investments in Subsidiary Undertakings

Bank	**2005 US$M**	**2004 US$M**
Beginning of the year	722	767
Reclassification of loans to investments in subsidiary	3	(3)
Repatriation of capital by subsidiary	(698)	(42)
End of the year	**27**	**722**

The subsidiary undertakings, direct and indirect, of the Bank at 31 December 2005, 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%
Indirect holdings:		
Credit Suisse First Boston International (Australia) Limited	Australia	100%

On 30 September 2005, Credit Suisse First Boston International Warrants Limited resolved to redesignate 600,000,000 Authorised Redeemable Preference Shares of GB£1 each as Ordinary Shares of GB£1 each. On 13 October 2005 Credit Suisse First Boston International Warrants Limited resolved to reduce its share capital to GB£8,000,000 by cancelling 417,431,000 Ordinary Shares of GB£1 each. The effective date of the reduction was 21 October 2005. On 26 October 2005 Credit Suisse First Boston International Warrants Limited resolved to be wound up voluntarily and to appoint a liquidator. Credit Suisse First Boston International Warrants Limited commenced liquidation on 2 November 2005.

On 2 December 2005 Credit Suisse First Boston International Finance Limited was liquidated.

The business of all of the subsidiaries is complementary to the derivative product services business of the Bank.

16. Property, Plant and Equipment

Group and Bank 2005	**Long Leasehold Land and Buildings**	**Leasehold Improvements**	**Internally Developed Software**	**Computer Equipment**	**Office Equipment**	**Total**
	US$M	**US$M**	**US$M**	**US$M**	**US$M**	**US$M**
Cost:						
Cost at 1 January 2005	78	340	123	372	67	980
Additions	-	29	52	43	11	135
Disposals	-	-	(20)	-	-	(20)
Write down	-	(6)	-	-	-	(6)
Cost at 31 December 2005	78	363	155	415	78	1,089
Depreciation:						
Depreciation at 1 January 2005	(9)	(184)	(48)	(323)	(60)	(624)
Charge for the period	(2)	(31)	(55)	(34)	(4)	(126)
Disposals	-	-	20	-	-	20
Depreciation at 31 December 2005	(11)	(215)	(83)	(357)	(64)	(730)
Net book value as at 31 December 2005	**67**	**148**	**72**	**58**	**14**	**359**

Group and Bank 2004	**Long Leasehold Land and Buildings**	**Leasehold Improvements**	**Internally Developed Software**	**Computer Equipment**	**Office Equipment**	**Total**
	US$M	**US$M**	**US$M**	**US$M**	**US$M**	**US$M**
Cost:						
Cost at 1 January 2004	78	333	81	354	72	918
Additions	-	8	42	45	2	97
Disposals	-	(1)	-	(27)	(7)	(35)
Cost at 31 December 2004	78	340	123	372	67	980
Depreciation:						
Depreciation at 1 January 2004	(7)	(154)	(14)	(336)	(38)	(549)
Charge for the year	(2)	(31)	(34)	(11)	(28)	(106)
Disposals	-	1	-	24	6	31
Depreciation at 31 December 2004	(9)	(184)	(48)	(323)	(60)	(624)
Net book value at 31 December 2004	**69**	**156**	**75**	**49**	**7**	**356**

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

Of the Group's and Bank's depreciation charge of US$126m (2004: US$106m), US$111m (2004: US$97m) was recharged to other Credit Suisse Group entities, leaving a net depreciation charge for the period of US$15m (2004:US$9m).

No interest has been capitalised within property, plant and equipment (2004:US$Nil).

17. Deposits

	Group 2005 US$M	Group 2004 US$M	Bank 2005 US$M	Bank 2004 US$M
Non-interest bearing demand deposits	64	16	61	9
Interest-bearing demand deposits	1,260	288	1,101	145
Time deposits	3,157	1,794	3,140	2,158
Total deposits	**4,481**	**2,098**	**4,302**	**2,312**

As at 31 December 2005, the remaining maturities for time deposits were as follows:

	Group 2005 US$M	Group 2004 US$M	Bank 2005 US$M	Bank 2004 US$M
2006	3	-	3	-
2007	-	-	-	-
2008	2	386	2	386
2009	-	290	-	290
2010	8	135	-	135
Thereafter	3,144	983	3,135	1,347
Total time deposits	**3,157**	**1,794**	**3,140**	**2,158**

The comparative figures for 2004 shown above are based on UK GAAP (see note 2c). The changes to the accounting policies as of 1 January 2005 which arise from the adoption of IFRS are disclosed in note 31.

18. Long Term Debt

	Group 2005 US$M	Group 2004 US$M	Bank 2005 US$M	Bank 2004 US$M
Senior debt	3,110	18,785	3,195	17,132
Subordinated debt	2,064	3,466	2,064	3,466
Total long term debt	**5,174**	**22,251**	**5,259**	**20,598**

The below table sets out the maturity analysis for long term debt:

Group 2005	**2006 US$M**	**2007 US$M**	**2008 US$M**	**2009 US$M**	**2010 US$M**	**Thereafter US$M**	**Total US$M**
Senior debt							
Fixed rate	172	57	93	515	252	182	1,271
Variable rate	230	218	168	125	94	1,004	1,839
Interest rates (range in %)	0-13.89	3.6-20	5.75-10.5	1.83-11.94	3.8-15	2.65-9.75	
	402	**275**	**261**	**640**	**346**	**1,186**	**3,110**
Subordinated debt							
Variable rate	-	-	-	-	-	2,064	2,064
Total long term debt	**402**	**275**	**261**	**640**	**346**	**3,250**	**5,174**

18. Long Term Debt (continued)

Group 2004	**2005 US$M**	**2006 US$M**	**2007 US$M**	**2008 US$M**	**2009 US$M**	**Thereafter US$M**	**Total US$M**
Senior debt							
Fixed rate	909	1,436	1,583	2,048	2,697	3,191	11,864
Variable rate	1,751	1,724	525	827	653	1,441	6,921
Interest rates (range in %)	0- 9.75	0–10.8	0- 10	0 –8.20	0- 7.62	0- 7.50	
	2,660	**3,160**	**2,108**	**2,875**	**3,350**	**4,632**	**18,785**
Subordinated debt							
Fixed rate	73	-	16	524	-	325	938
Variable rate	146	74	297	300	104	1,607	2,528
Interest rates (range in %)	2.45-8.25	-	2.29-6.55	2.41-6.09	-	4.80-10.25	
	219	**74**	**313**	**824**	**104**	**1,932**	**3,466**
Total long term debt	**2,879**	**3,234**	**2,421**	**3,699**	**3,454**	**6,564**	**22,251**

Bank 2005	**2006 US$M**	**2007 US$M**	**2008 US$M**	**2009 US$M**	**2010 US$M**	**Thereafter US$M**	**Total US$M**
Senior debt							
Fixed rate	224	93	426	617	313	185	1,858
Variable rate	230	218	168	125	94	502	1,337
Interest rates (range in %)	0-13.89	0.15-20	0-10.50	0.64-11.94	0-15.0	0-9.75	
	454	**311**	**594**	**742**	**407**	**687**	**3,195**
Subordinated debt							
Variable rate	-	-	-	-	-	2,064	2,064
Total long term debt	**454**	**311**	**594**	**742**	**407**	**2,751**	**5,259**

Bank 2004	**2005 US$M**	**2006 US$M**	**2007 US$M**	**2008 US$M**	**2009 US$M**	**Thereafter US$M**	**Total US$M**
Senior debt							
Fixed rate	909	1,427	1,583	1,774	2,438	3,125	11,256
Variable rate	1,751	679	525	827	653	1,441	5,876
Interest rates (range in %)	0- 9.75	0–10.8	0- 10	0 –8.20	0- 7.62	0- 7.50	
	2,660	**2,106**	**2,108**	**2,601**	**3,091**	**4,566**	**17,132**
Subordinated debt							
Fixed rate	73	-	16	524	-	325	938
Variable rate	146	74	297	300	104	1,607	2,528
Interest rates (range in %)	2.45-8.25	-	2.29-6.55	2.41-6.09	-	4.80-10.25	
	219	**74**	**313**	**824**	**104**	**1,932**	**3,466**
Total long term debt	**2,879**	**2,180**	**2,421**	**3,425**	**3,195**	**6,498**	**20,598**

The comparative figures for 2004 shown above are based on UK GAAP (see note 2c). The changes to the accounting policies as of 1 January 2005 which arise from the adoption of IFRS are disclosed in note 31.

19. Other Liabilities

	Group 2005 US$M	Group 2004 US$M	Bank 2005 US$M	Bank 2004 US$M
Negative replacement values of derivative instruments (held for hedging purposes) (see note 25)	113	79	113	79
Brokerage payables (see note 13)	4,211	3,669	4,211	3,672
Interest and fees payable	541	470	1,720	588
Provisions (see note 20)	35	50	35	50
Other payables to customers	11,426	5,955	11,426	5,955
Other	618	448	505	396
Total other liabilities	**16,944**	**10,671**	**18,010**	**10,740**

The comparative figures for 2004 shown above for the negative replacement value of derivatives, interest and fee payables, and other payables from customers, are based on UK GAAP (see note 2c). The changes to the accounting policies as of 1 January 2005 which arise from the adoption of IFRS are disclosed in note 31.

20. Provisions

Group and Bank	Property US$M	Litigation US$M	Total 2005 US$M	Total 2004 US$M
Balance at beginning of year	41	9	50	59
Increase in provisions	15	7	22	13
Released or utilised during the year	(24)	(6)	(30)	(22)
Currency translation difference	(1)	-	(1)	-
Write down of provisions	(6)	-	(6)	-
Balance at the end of the year	**25**	**10**	**35**	**50**

Of the property provision, US$16m represents a deferred capital contribution received to fund the fit-out of a building. Approximately US$12m of this is expected to be utilised during 2006. A further US$7m relates to disposal costs for surplus office space. This is expected to be utilised evenly over the next three years. The remaining property provision relates to reinstatement obligations that will be incurred when the leases expire.

The litigation provision relates to legal fees for a case that the Bank is defending. These legal fees will be incurred in 2006 and thereafter. The exact timing of outflow of economic benefits cannot be ascertained at the end of 2005.

21. Called-up Share Capital and Share Premium

Authorised:	2005 US$	2004 US$
Ordinary voting shares of US$1 each	125	125
Participating non-voting shares of US$1 each	774,999,375	774,999,375
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	-
	3,300,000,000	**2,700,000,000**

21. Called-up Share Capital and Share Premium (continued)

	2005	2004
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	682,324,900	682,324,900
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	375,000,000	375,000,000
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	-
	1,957,325,225	**1,657,325,225**

Dividends	**2005**	**2005**	**2004**	**2004**
		Cents per		**Cents per**
	US$M	**share**	**US$M**	**share**
Class B Preference Shares	24	6.430	21	5.520
Class C Preference Shares	22	6.299	3	0.940
Class D Preference Shares	3	0.840	-	-
	49		**24**	

The Participating non voting shares were issued at a premium of US$432,675,000 (2004: US$432,675,000).

In 2005, there was an increase in authorised and issued share capital. On 17 November 2005, 600,000,000 Class D Preference Shares of US$1 each were authorised of which 300,000,000 were issued. These shares were issued fully paid in cash at par on application for the shares.

The holders of Ordinary shares carry voting rights but do not carry the right to receive dividends. The holders of Participating shares do not carry voting rights but carry the right to receive dividends. The holders of Ordinary shares and Participating non-voting shares rank pari passu in all other respects. Dividend payments on preference shares are discretionary.

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 those shares.

The company may redeem at any time the whole but not part of any issued Preference Shares by giving to the holder of the Preference Shares not less than 28 days' prior notice in writing of a date when such redemption is to be effective (a 'Redemption Notice'). There shall be paid on each Preference share redeemed the nominal amount paid up on together with a sum equal to all arrears and accruals of the preferential dividend thereon calculated down to and including the date of redemption and to be payable irrespective whether or not such dividend has been declared.

The holders of Class A Participating cumulative non-voting 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 those 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.

The Bank shall have the right, subject to the Companies Act 1985, on any fixed dividend date to redeem the Class A Participating Shares from 31 December 1995, in whole but not part of the Class A Participating Shares which have been issued. The Bank must give the holders of the Shares to be redeemed not less than 28 days' prior notice in writing of the redemption date.

21. Called-up Share Capital and Share Premium (continued)

The Class A Preference shares are perpetual non-cumulative 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 those 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 Preference Shares are non–cumulative shares. The holders of Class B Preference 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 these shares. Holders of the shares receive fixed preferential dividend at the rate of 6.43% per annum paid semi annually on 30 June and 31 December ('the fixed dividend date'), 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 B Preference Shares have priority over all other classes of share (except with equal priority to the Class C, Class D and Class E Preference Shares and other than the Preference Shares and the Class A Preference shares which retain absolute priority), as to the right of participation on a return of capital.

The Bank shall have the right, subject to the Companies Act 1985, on any fixed dividend date to redeem the Class B Preference Shares from 27 February 2009 in whole or any part of the Class B Preference Shares which have been issued. The Bank must give the holders of the Class B Preference Shares to be redeemed not less than 28 days' prior notice in writing of the redemption date. There shall be paid on each Class B Preference Share redeemed the amount paid up thereon together with a sum equal to all arrears and accruals (if any) of the Class B preferential dividend, to be calculated down to and including the redemption date.

The Class C Preference Shares are non–cumulative shares. The holders of Class C Preference Shares have voting rights only in respect of resolutions modifying, varying or abrogating the rights or privileges of the holders of these shares. Holders of the shares receive fixed preferential dividend at the rate of 6.299% per annum paid semi-annually on 30 June and 31 December ('the fixed dividend date'), 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 C Preference Shares have priority over all other classes of share (except with equal priority to the Class B, Class D and Class E Preference shares and other than the Preference Shares and the Class A Preference shares, which retain absolute priority), as to the right of participation on a return of capital.

The Bank shall have the right, subject to the Companies Act 1985, on any fixed dividend date to redeem the Class C Preference Shares from 8 November 2009 in whole or any part of the Class C Preference Shares which have been issued. The Bank must give the holders of the Shares to be redeemed not less than 28 days' prior notice in writing of the redemption date. There shall be paid on each Class C Preference Share redeemed the amount paid up thereon together with a sum equal to all arrears and accruals (if any) of the Class C preferential dividend, to be calculated down to and including the redemption date.

The Class D Preference Shares are non–cumulative shares. The holders of Class D Preference Shares have voting rights only in respect of resolutions modifying, varying or abrogating the rights or privileges of the holders of these shares. Holders of the shares receive fixed preferential dividend at the rate of 7% per annum paid semi-annually on 30 June and 31 December ('the fixed dividend date'), 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 D Preference Shares have priority over all other classes of share (except with equal priority to the Class B, Class C and Class D Preference Shares and other than the Preference Shares and the Class A Preference Shares, which retain absolute priority), as to the right of participation on a return of capital.

21. Called-up Share Capital and Share Premium (continued)

The Bank shall have the right, subject to the Companies Act 1985, on any fixed dividend date to redeem the Class D Preference Shares from 17 November 2010 in whole or any part of the Class D Preference Shares which have been issued. The Bank must give the holders of the Shares to be redeemed not less than 28 days' prior notice in writing of the redemption date. There shall be paid on each Class D Preference Share redeemed the amount paid up thereon together with a sum equal to all arrears and accruals (if any) of the Class D preferential dividend, to be calculated down to and including the redemption date.

On 15 March 2006, the total authorised capital of the Bank increased from US$3,300,000,000 to US$4,000,000,000 by the creation of a new class of shares being 700,000,000 Class E Preference Shares of US$1 each, of which US$535,000,000 was issued to Credit Suisse (International) Holding AG (IHAG).

At the same time, the dividend payment date on existing A, B, C and D class preference shares was amended to 30 April 2007 and annually on the same date thereafter.

The Class E Preference Shares are non-cumulative shares. The holders of Class E Preference Shares have voting rights only in respect of resolutions modifying, varying or abrogating the rights or privileges of the holders of these shares. Holders of the shares receive fixed preferential dividend at the rate of 6.8195% per annum paid annually on 30 April ('the fixed dividend date') from 30 April 2007, 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 E Preference Shares have priority over all other classes of share (except with equal priority to the Class B, Class C and Class D Preference shares and other than the Preference Shares and the Class A Preference shares, which retain absolute priority), as to the right of participation on a return of capital.

The Bank shall have the right, subject to the Companies Act 1985, on any fixed dividend date to redeem the Class E Preference Shares from 15 March, 2011 in whole or any part of the Class E Preference Shares which have been issued. The Bank must give the holders of the Shares to be redeemed not less than 28 days' prior notice in writing of the redemption date. There shall be paid on each Class E Preference Share redeemed the amount paid up thereon together with a sum equal to all arrears and accruals (if any) of the Class E preferential dividend, to be calculated down to and including the redemption date.

Stock awards

The Bank participates in the Credit Suisse Group stock award plan. The Plan grants restricted stock awards to certain employees based on the fair market value of Credit Suisse Group shares at the time of grant. In September 2003 the company amended the plan and introduced three-year vesting for restricted stock awards principally awarded as part of year end compensation. This change is effective for certain grants made in January 2004 as part of the year end process. Additionally in January 2005, as part of the 2004 compensation process, the Group also granted new performance-based equity awards as retention incentive awards, which it believes better aligns the interest of its workforce with those of its shareholders. The new equity awards were granted in the form of share units entitled 'PIP units'. Each share unit provides the holder with the potential to receive Credit Suisse Group common shares at the end of the five-year vesting period following the grant date, based on the achievement of certain performance and market criteria, continued employment with the Group and certain other conditions such as restrictive covenants and forfeiture provisions.

Total compensation expense for stock awards recognized during 2005 and 2004 was USD US$233m and US$59m respectively.

The total stock award liability recorded as at 31 December 2005 was US$252m (2004: US$120m). The fair value used to calculate the stock award liability was the closing CSG share price as at 31 December 2005 CHF67.00 (2004: CHF47.80). The average weighted fair value of awards granted in 2005 was CHF48.90 (2004: CHF47.56).

The intrinsic value of vested share based awards outstanding as at year end was US$48m (2004: US$58m).

21. Called-up Share Capital and Share Premium (continued)

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

Stock excluding PIP units	**2005**	**2004**
	Million	**Million**
At 1 January	2.93	1.79
Granted	1.42	1.90
Delivered	(1.71)	(0.17)
Forfeited	(0.21)	(0.60)
At 31 December	**2.43**	**2.92**

PIP units	**2005**	**2004**
	Million	**Million**
Granted	0.59	-
At 31 December	**0.59**	**-**

Share options

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

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

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

	2005	**2004**
	(in Units)	**(in Units)**
At 1 January	1,624,281	1,857,926
Exercised	(127,998)	(122,159)
Forfeited	(29,025)	(111,486)
At 31 December	**1,467,258**	**1,624,281**

The intrinsic value of vested options outstanding as at year end was US$22m (2004: US$8m).

21. Called-up Share Capital and Share Premium (continued)

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

	Exercise Price CHF	**31 December 2005 (in Units)**	**31 December 2004 (in Units)**
Jan 2001 Options	CHF 84.75	220,796	220,796
Jan 2002 Options	CHF 65.75	392,395	396,500
Dec 2002 Options	CHF 34.10	227,306	278,047
Jan 2003 Options	CHF 30.60	529,419	627,402
Sep 2003 ORP Options	CHF 50.55	97,342	101,536
Jan 2004 Options	CHF 47.75	-	-
Jan 2005 Options	CHF 48.05	-	-
		1,467,258	**1,624,281**

For share options exercised during 2005, the weighted average share price at the date of exercise was CHF52.27 (2004: CHF45.67).

22. Retirement Benefit Obligations

The following disclosures contain the balances for the entire defined benefit plan sponsored by Credit Suisse Securities (Europe) Ltd., of which the Group is one of many participants, who are all related parties under common control. The Group accounts for its share of the plan using defined contribution accounting and its share of the total plan based on employees covered by the plan is 13.29%. This is the basis on which contributions are allocated to the Group. There is no formal policy to allocate costs, contributions and deficits to different entities.

Defined benefit pension

The following table shows the changes in the defined benefit obligation and the fair value of plan assets during 2005 and 2004, and the amounts included in the consolidated balance sheets for the Group's defined benefit pension and other post-retirement defined benefit plans as at 31 December, 2005 and 2004 respectively:

	Defined benefit pension plans	
	2005 US$M	**2004 US$M**
Defined benefit obligation – beginning of the measurement period	978	735
Service costs	5	11
Interest costs	51	43
Actuarial losses – assumptions	192	113
Actuarial losses – experience	(52)	15
Benefit payments	(8)	(9)
Exchange rate gains	(111)	69
Defined benefit obligation – end of the measurement period	**1,055**	**977**
Fair value of plan assets – beginning of the measurement period	755	518
Actual return on plan assets	131	66
Contributions	8	128
Benefit payments	(8)	(9)
Exchange rate gains	(85)	52
Fair value of plan assets – end of the measurement period	**801**	**755**

22. Retirement Benefit Obligations (continued)

In 2006, the Group expects to contribute US$8m to the UK defined benefit pension plan.

Assumptions

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

31 December, in %	**2005**	**2004**
Benefit obligations		
Discount rate	4.7	5.5
Salary increases	4.25	4.25
Net periodic pension cost		
Discount rate	5.5	5.75
Salary increases	4.25	4.0
Expected long-term rate of return on plan assets	7.25	7.0

The assumption for life expectancy are based on the 1992 series of tables published by the Institute and Faculty of Actuaries. Assumed life expectancy for a 60 year old member of the Fund is 22 years (males) and 25 years (females).

Defined Contribution Pension Plans

The Group also contributes to various defined contribution pensions primarily in the United Kingdom. The contributions in these plans during 2005 and 2004 were US$9m and US$6m respectively.

23. Related Party Transactions

The Group is controlled by Credit Suisse Group, incorporated in Switzerland, which owns 100% of the ordinary shares. The ultimate parent of the Group is Credit Suisse Group, which is also incorporated in Switzerland.

The Group has significant related party balances with subsidiaries and affiliates of Credit Suisse Group. These transactions largely comprise derivative trades, as the Bank is the principal risk taker for derivatives within the Credit Suisse Group, as well as funding trades via the use of loans/deposits and repurchase/resale agreements. The Group is also charged for operating costs that mainly relates to employees-related services and other business expenses.

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

23. Related Party Transactions (continued)

a) Related party assets and liabilities

Group	2005			2004		
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	2	2,945	2,947	4	339	343
Interest-bearing deposits with banks	-	582	582	-	1,376	1,376
Securities purchased under resale agreements and securities borrowing transactions	-	10,737	10,737	-	9,326	9,326
Trading assets	1,046	6,367	7,413	1,174	1,504	2,678
Other financial assets	-	351	351	-	-	-
Loans and receivables	-	551	551	-	419	419
Other assets	59	4,163	4,222	84	1,496	1,580
Total assets	**1,107**	**25,696**	**26,803**	**1,262**	**14,460**	**15,722**
Liabilities						
Deposits	3	3,280	3,283	12	1,056	1,068
Securities sold under repurchase agreements and securities lending transactions	-	13,906	13,906	-	3,670	3,670
Other financial liabilities	-	599	599		-	-
Trading liabilities	500	6,897	7,397	346	2,147	2,493
Short term borrowings	179	18,318	18,497	166	21,568	21,734
Long term debt	61	5,119	5,180	-	3,116	3,116
Other liabilities	9	3,692	3,701	11	4,504	4,515
Total liabilities	**752**	**51,811**	**52,563**	**535**	**36,061**	**36,596**

23. Related Party Transactions (continued)

Bank	**2005**				**2004**			
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	2	2,919	-	2,921	4	339	-	343
Interest-bearing deposits with banks	-	582	-	582	-	1,377	-	1,377
Securities purchased under resale agreements and securities borrowing transactions	-	10,737	-	10,737	-	9,326	-	9,326
Trading assets	1,046	6,367	6,092	13,505	1,174	1,505	533	3,212
Other financial assets	-	351	-	351	-	-	-	-
Loans and receivables	-	551	5	556	-	419		419
Other assets	59	4,167	1,102	5,328	84	1,496		1,580
Investments in subsidiary undertakings	-	-	27	27	-	-	722	722
Total assets	**1,107**	**25,674**	**7,226**	**34,007**	**1,262**	**14,462**	**1,255**	**16,979**
Liabilities								
Deposits	3	3,261		3,264	12	1,055	208	1,275
Securities sold under repurchase agreements and securities lending transactions	-	13,906	-	13,906	-	3,670	-	3,670
Other financial liabilities	-	599		599				
Trading liabilities	500	6,897	65	7,462	346	2,147	277	2,770
Short term borrowings	179	18,308	25	18,512	166	21,568	-	21,734
Long term debt	61	4,618	587	5,266	-	3,116	-	3,116
Other liabilities	9	3,686	1,228	4,923	11	4,504	1	4,516
Total liabilities	**752**	**51,275**	**1,905**	**53,932**	**535**	**36,060**	**486**	**37,081**

23. Related Party Transactions (continued)

b) Related party off balance sheet transactions

Group	**2005**				**2004**			
	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	839	47,010	-	47,849	486	20,442	-	20,928
Derivatives notional amounts	41,535	574,642	-	616,177	72,477	504,782	-	577,259
Total	**42,374**	**621,652**	**-**	**664,026**	**72,963**	**525,224**	**-**	**598,187**

Bank	**2005**				**2004**			
	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	839	47,010	245	48,094	486	20,442	115	21,043
Derivatives notional amounts	41,535	574,642	2,878	619,055	72,477	504,782	2,665	579,924
Total	**42,374**	**621,652**	**3,123**	**667,149**	**72,963**	**525,224**	**2,780**	**600,967**

23. Related Party Transactions (continued)

c) Related party revenues and expenses

Group	**2005**			**2004**		
	Parent	**Fellow group companies**	**Total**	**Parent**	**Fellow group companies**	**Total**
	US$M	**US$M**	**US$M**	**US$M**	**US$M**	**US$M**
Interest income	-	471	471	-	253	253
Interest expense	-	(1,168)	(1,168)	-	(515)	(515)
Net interest income	**-**	**(697)**	**(697)**	**-**	**(262)**	**(262)**
Commissions and fees	-	(238)	(238)	-	(118)	(118)
Other revenues	(21)	(163)	(184)	(20)	(152)	(172)
Total non interest revenues	**(21)**	**(401)**	**(422)**	**(20)**	**(270)**	**(290)**
Net operating income	**(21)**	**(1,098)**	**(1,119)**	**(20)**	**(532)**	**(552)**
Total operating expenses	**-**	**(389)**	**(389)**	**-**	**(409)**	**(409)**

23. Related Party Transactions (continued)

d) Related Party Averages

Group	2005 Average US$M	2004 Average US$M
Assets		
Securities purchased under resale agreements and securities borrowing transactions	11,583	6,702
Trading assets	8,856	2,422
Liabilities		
Securities sold under repurchase agreements and securities lending transactions	10,732	2,908
Trading Liabilities	8,181	2,778
Short term borrowing	18,251	17,866
Long term debt	3,480	3,116

Group	2005 Average US$M	2004 Average US$M
Derivative Notional	646,373	437,102
Guarantees	35,938	17,436

The averages above have been calculated using month end balances.

e) Remuneration

Remuneration of Directors

	2005 US$M	2004[1] US$M
Emoluments	6	5
Amounts receivable under long term incentive schemes	11	5
Compensation for loss of office	3	-
	20	**10**
Company contributions to money purchase pension schemes	1	1
	21	**11**

Under IFRS the aggregate value of compensation provided in the accounts for 2005 for Directors was US$35,190,617 (2004: US$18,433,674).

Included in amounts receivable under long term incentive schemes for Directors is US$1,196,596 (2004: US$397,054 as restated) relating to cash schemes.

The aggregate of emoluments and amounts receivable under long term incentive schemes of the highest paid director was US$6,039,188 (2004: US$2,368,818). He was a member of a defined benefit and money purchase pension scheme; the accrued pension as at year end was US$50,864 and the contribution paid during the year for the money purchase pension scheme was US$6,038 (2004: US$19,819).

[1] Cash payments received under long term incentive schemes have been included under 'Amounts receivable under long term incentive schemes'. In prior year these were included under 'Emoluments'.

23. Related Party Transactions (continued)

	Number of Directors 2005	Number of Directors 2004
Retirement benefits are accruing to the following number of directors under:		
Money purchase schemes	7	4
Defined benefit schemes	1	-
Both money purchase and defined benefit	4	5
The number of directors who exercised share options	1	-
Directors in respect of whom services were received or receivable under long term incentive schemes	13	8

Remuneration of Key Management Personnel

	2005 US$M	2004 US$M
Emoluments	4	9
Amounts receivable under long term incentive schemes	67	13
	71	**22**
Company contributions to money purchase pension schemes	4	3
	75	**25**

Key management personnel include Legal Executive Directors, the EMEA (Europe, Middle East and Africa) Investment Banking Committee of Credit Suisse Group and significant management responsible for Designated Investment Business.

Where directors and key management personnel perform services for a number of companies within the Credit Suisse Group, the total emoluments payable to each director have been apportioned to the respective entities.

f) Loans and Advances to Directors and Key Management Personnel

There were no loans outstanding to or due from directors or key management personnel of the Bank at 31 December 2005 (2004: US$Nil).

24. Employees

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

Group	2005 Number	2004 Number
Front office	353	313
Back office	706	697
	1,059	1,010

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.

25. 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, cross currency and credit default swaps, interest rate and foreign currency options, foreign exchange forward contracts, and foreign currency and interest rate futures.

Further, 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 contact is entered into, the Bank designates the derivative as belonging to one of the following categories:

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

Trading Activities

The 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 2005 were used for trading activities.

Economic Hedges

The Bank also uses credit derivatives to manage the credit risk of certain of its loan portfolios. These derivatives also do not qualify for hedge accounting treatment under IFRS. Credit derivatives used to hedge the credit risk in these loans are accounted for at fair value with changes in fair value recorded in '*Trading Revenues*'.

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 uses cross currency swaps to convert foreign currency denominated fixed rate assets or liabilities to floating rate functional currency assets or liabilities.

25. Derivatives and Hedging Activities (continued)

The following table sets forth details of fair value hedges:

Group and Bank	**2005 US$M**	**2004 US$M**
Net gain of the ineffective portion	4	-
Fair value of open derivative transactions used as fair value hedges	(77)	391

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

31 December 2005	**Trading**			**Hedging**		
Group	Notional amount **US$M**	Positive replacement value **US$M**	Negative replacement value **US$M**	Notional amount **US$M**	Positive replacement value **US$M**	Negative replacement value **US$M**
Forward rate agreements	1,275,475	370	338			
Swaps	9,404,034	126,676	122,842	1,577	1	72
Options bought and sold (OTC)	1,609,515	16,477	18,637	-	-	-
Futures	539,444	-	-	-	-	-
Interest rate products	**12,828,468**	**143,523**	**141,817**	**1,577**	**1**	**72**
Forward rate agreements	38,649	634	1,058	-	-	-
Swaps	473,601	12,352	12,272	-	-	-
Options bought and sold (OTC)	47,488	1,260	1,994	-	-	-
Foreign exchange products	**559,738**	**14,246**	**15,324**	**-**	**-**	**-**
Forward rate agreements	5,350	772	902	-	-	-
Swaps	1,461	85	84	-	-	-
Precious metals products	**6,811**	**857**	**986**	**-**	**-**	**-**
Swaps	115,719	1,396	2,503	-	-	-
Options bought and sold (OTC)	542,193	16,780	15,737	-	-	-
Futures	13,442	-	-	-	-	-
Equity/indexed-related products	**671,354**	**18,176**	**18,240**	**-**	**-**	**-**
Swaps	900,235	8,404	8,765	3,458	35	41
Credit products	**900,235**	**8,404**	**8,765**	**3,458**	**35**	**41**
Forward rate agreements	3,955	81	185	-	-	-
Swaps	17,007	196	188	-	-	-
Options bought and sold (OTC)	3,854	86	115	-	-	-
Other products	**24,816**	**363**	**488**	**-**	**-**	**-**
Total derivative instruments	**14,991,422**	**185,569**	**185,620**	**5,035**	**36**	**113**

The notional amount of derivative instruments (trading and hedging) was US$14,996,457m and US$12,225,928m as at 31 December 2005 and 2004 respectively.

25. Derivatives and Hedging Activities (continued)

	2005		2004	
	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	185,605	185,733	193,139	194,658
Replacement values (trading and hedging) after netting	133,620	133,913	25,173	27,691

The following table sets forth details of trading and hedging derivative contracts according to maturity:

	Gross positive replacement value			
	Remaining life			2005
	<1 year US$M	1-5 years US$M	>5 years US$M	Total US$M
Interest rate instruments	7,966	45,388	90,170	**143,524**
Foreign exchange	5,206	4,896	4,144	**14,246**
Precious metals	228	595	34	**857**
Equities/indices	5,654	11,143	1,379	**18,176**
Credit products	335	6,149	1,955	**8,439**
Other	65	257	41	**363**
Total	**19,454**	**68,428**	**97,723**	**185,605**

25. Derivatives and Hedging Activities (continued)

31 December 2005	**Trading**			**Hedging**		
Bank	Notional amount	Positive replacement value	Negative replacement value	Notional amount	Positive replacement value	Negative replacement value
	US$M	**US$M**	**US$M**	**US$M**	**US$M**	**US$M**
Forward rate agreements	1,275,475	370	338	-	-	-
Swaps	9,405,101	127,319	122,903	1,577	1	72
Options bought and sold (OTC)	1,609,532	16,490	18,637	-	-	-
Futures	539,444	-	-	-	-	-
Interest rate products	**12,829,552**	**144,179**	**141,878**	**1,577**	**1**	**72**
Forward rate agreements	38,649	634	1,058	-	-	-
Swaps	473,601	12,352	12,272	-	-	-
Options bought and sold (OTC)	47,488	1,260	1,994	-	-	-
Foreign exchange products	**559,738**	**14,246**	**15,324**	**-**	**-**	**-**
Forward rate agreements	5,350	772	902	-	-	-
Swaps	1,461	85	84	-	-	-
Precious metals products	**6,811**	**857**	**986**	**-**	**-**	**-**
Swaps	115,728	1,399	2,503	-	-	-
Options bought and sold (OTC)	542,193	16,780	15,737	-	-	-
Futures	13,442	-	-	-	-	-
Equity/indexed-related products	**671,363**	**18,179**	**18,240**	**-**	**-**	**-**
Swaps	900,248	8,404	8,765	3,458	35	41
Credit products	**900,248**	**8,404**	**8,765**	**3,458**	**35**	**41**
Forward rate agreements	3,955	81	185	-	-	-
Swaps	17,007	196	188	-	-	-
Options bought and sold (OTC)	3,854	86	115	-	-	-
Other products	**24,816**	**363**	**488**	**-**	**-**	**-**
Total derivative instruments	**14,992,528**	**186,228**	**185,681**	**5,035**	**36**	**113**

		2005		**2004**
	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	186,264	185,794	193,139	194,658
Replacement values (trading and hedging) after netting	134,279	133,974	26,494	27,803

25. Derivatives and Hedging Activities (continued)

The following table sets forth details of trading and hedging derivative contracts according to maturity:

	Gross positive replacement value			
	Remaining life			2005
	<1 year	1-5 years	>5 years	Total
	US$M	US$M	US$M	US$M
Interest rate instruments	8,484	45,393	90,303	**144,180**
Foreign exchange	5,206	4,896	4,144	**14,246**
Precious metals	228	595	34	**857**
Equities/indices	5,654	11,146	1,379	**18,179**
Credit products	300	6,184	1,955	**8,439**
Other	65	257	41	**363**
Total	**19,937**	**68,471**	**97,856**	**186,264**

25. Derivatives and Hedging Activities (continued)

31 December 2004	**Trading**			**Hedging**		
Group and Bank	Notional amount	Positive replacement value	Negative replacement value	Notional amount	Positive replacement value	Negative replacement value
	US$M	**US$M**	**US$M**	**US$M**	**US$M**	**US$M**
Forward rate agreements	666,815	223	216	-	-	-
Swaps	8,118,048	137,814	132,656	1,144	312	3
Options bought and sold (OTC)	1,723,706	14,829	16,547	-	-	-
Futures	356,038	-	-	-	-	-
Options bought and sold (traded)	-	-	-	-	-	-
Interest rate products	**10,864,607**	**152,866**	**149,419**	**1,144**	**312**	**3**
Swaps	438,573	21,287	21,739	240	119	-
Options bought and sold (OTC)	40,109	1,252	1,388	-	-	-
Futures	46,172	1,039	2,119	-	-	-
Foreign exchange products	**524,854**	**23,578**	**25,246**	**240**	**119**	**-**
Swaps	1,618	104	43	-	-	-
Options bought and sold (OTC)	702	-	39	-	-	-
Futures	6,017	584	1,927	-	-	-
Precious metals products	**8,337**	**688**	**2,009**	**-**	**-**	**-**
Swaps	33,158	1,042	1,338	181	39	-
Options bought and sold (OTC)	308,143	9,446	10,198	181	-	73
Futures	8,306	2	1	-	-	-
Equity/indexed-related products	**349,607**	**10,490**	**11,537**	**362**	**39**	**73**
Swaps	475,908	5,038	6,368	184	-	3
Credit products	**475,908**	**5,038**	**6,368**	**184**	**-**	**3**
Swaps	1	-	-	-	-	-
Options bought and sold (OTC)	684	9	-	-	-	-
Other products	**685**	**9**	**-**	**-**	**-**	**-**
Total derivative instruments	**12,223,998**	**192,669**	**194,579**	**1,930**	**470**	**79**

The comparative figures for 2004 shown above are based on UK GAAP (see note 2c). The changes to the accounting policies as of 1 January 2005 which arise from the adoption of IFRS are disclosed in note 31.

26. Guarantees and Commitments

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

Group and Bank

31 December 2005	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$M	Total net amount US$M	Collateral received US$M	Carrying value US$M
Credit guarantees and similar instruments	-	20	4	-	24	24	-	24
Performance guarantees and similar instruments	-	14	-	-	14	14	14	-
Derivatives	36,657	83,484	176,940	52,452	349,533	349,533	-	349,533
Total guarantees	**36,657**	**83,518**	**176,944**	**52,452**	**349,571**	**349,571**	**14**	**349,557**

31 December 2005	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$M	Total net amount US$M	Collateral received US$M	Carrying value US$M
Irrevocable commitments under documentary credit	109	447	130	466	1,152	1,152	364	788
Loan commitments	1,414	2,302	1,800	4,126	9,642	9,642	6,408	3,234
Total other commitments	**1,523**	**2,749**	**1,930**	**4,592**	**10,794**	**10,794**	**6,772**	**4,022**

31 December 2004	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$M	Total net amount US$M	Collateral received US$M	Carrying value US$M
Credit guarantees and similar instruments	-	-	16	163	179	179	179	-
Derivatives	20,096	49,307	89,402	39,827	198,632	198,632	-	198,632
Total guarantees	**20,096**	**49,307**	**89,418**	**39,990**	**198,811**	**198,811**	**179**	**198,632**

31 December 2004	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$M	Total net amount US$M	Collateral received US$M	Carrying value US$M
Irrevocable commitments under documentary credit	510	71	36	66	683	683	387	296
Loan commitments	1,944	895	2,030	1,113	5,982	5,982	1,141	4,841
Total other commitments	**2,454**	**966**	**2,066**	**1,179**	**6,665**	**6,665**	**1,528**	**5,137**

The comparative figures for 2004 shown above are based on UK GAAP (see note 2c). The changes to the accounting policies as of 1 January 2005 which arise from the adoption of IFRS are disclosed in note 31.

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 fulfill its obligation under a borrowing arrangement or other contractual obligation.

The Group also provides guarantees to special purpose entities and other counterparties under which it may be required to buy assets from such entities upon the occurrence of certain triggering events.

26. Guarantees and Commitments (continued)

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.

Under certain circumstances, the Group has provided to investors in private equity funds sponsored by a Group entity guarantees of potential obligations of certain general partners to return amounts previously paid as carried interest to those general partners. To manage its exposure, the Group generally withholds a portion of carried interest distributions to cover any repayment obligations. In addition, pursuant to certain contractual arrangements, the Group is obliged to make cash payments to certain investors in certain private equity funds if specified performance thresholds are not met.

Further, as part of the Group's residential mortgage securitisation activities in the United States, the Group at times guarantees the collection by the servicer and remittance to the securitisation trust of prepayment penalties.

Securities lending indemnifications are arrangements whereby the Group agrees to indemnify securities lending customers against losses incurred in the event that security borrowers do not return securities subject to the lending agreement and the collateral held is insufficient to cover the market value of the securities borrowed.

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 balance sheet.

Other guarantees include acceptances, residual value guarantees and all other guarantees that are not allocated to one of the captions above.

The Group has certain guarantees for which its maximum contingent liability cannot be quantified. These guarantees are not reflected in the table above and are discussed below.

The Bank has not adopted amendments to IAS 39 and IFRS 4 in relation to financial guarantee contracts which will apply for periods commencing on or after 1 January 2006.

Where the Bank enters into financial guarantee contracts to guarantee the indebtedness of other companies within its group, the Bank considers these to be insurance arrangements, and accounts for them as such. In this respect, the Bank treats the guarantee contract as a contingent liability until such time as it becomes probable that the Bank will be required to make a payment under the guarantee. As at 31 December 2005, the Bank does not have any such financial guarantee contracts that guarantee the indebtedness of other companies within its group.

The Bank does not expect the amendments to have any impact on the financial statements for the period commencing 1 January 2006.

26. Guarantees and Commitments (continued)

Disposals-related contingencies

In connection with the sale of assets or businesses, the Group sometimes provides the acquirer with certain indemnification provisions. These indemnification provisions vary by counterparty in scope and duration and depend upon the type of assets or businesses sold. These indemnification provisions generally transfer the potential risk of certain unquantifiable and unknowable loss contingencies (e.g. relating to litigation, tax, intellectual property matters and adequacy of claims reserves) from the acquirer to the seller. The Group closely monitors all such contractual agreements to ensure that indemnification provisions are adequately provided for in the Group's financial statements.

Lease Commitments

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

Group and Bank

Year ended 31 December	2005 US$M
2006	89
2007	89
2008	88
2009	88
Thereafter	1,213
Future operating lease commitments	**1,567**
Less minimum non-cancellable sublease rentals	(206)
Total net future minimum lease commitments	**1,361**

Year ended 31 December	2004 US$M
2005	100
2006	99
2007	99
2008	99
Thereafter	1,401
Future operating lease commitments	**1,798**
Less minimum non-cancellable sublease rentals	(406)
Total net future minimum lease commitments	**1,392**

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

	2005 US$M	2004 US$M
Minimum rentals	78	101
Sublease rental income	(72)	(94)
Total net rental expenses	6	7

26. Guarantees and Commitments (continued)

Contingent Liabilities and Commitments

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

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 total value of trades awaiting settlement at 31 December 2005 was US$211m (2004: US$899m).

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 total value of trades awaiting settlement at 31 December 2005 was US$354m (2004: US$44m).

The Bank has granted a further charge to 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 Bank of New York. The charge is secured to a limit of US$100m (2004: US$100m).

The Bank has granted charge to Midland 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 failure of the Bank to meet its obligations under the Settlement Bank Facility agreement. The value of trades awaiting settlement is US$21m (2004: US$9m).

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 failure of the Bank to meet its obligations under the Settlement Bank Facility agreement with HSBC Bank Plc. The charge is secured to a set limit of GB£25m (2004: GB£25m), and unsecured limited of GB£30m (2004: GB£30m).

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. The value of the charge at 31 December 2005 was limited to US$776m (2004: US$1,011m).

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 charge at 31 December 2005 was US$Nil (2004: US$Nil).

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 the J.P. Morgan Corporate Trustee Services Limited under the obligations of the trust deed between the Bank and the J.P. Morgan Corporate Trustee Services Limited. The charge is secured to a limit of US$250m (2004: US$325m).

During the year, 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 charge at 31 December 2005 was US$Nil.

During the year, 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$250m.

26. Guarantees and Commitments (continued)

During the year, the Bank has granted charges to the Arzteversorgung Niedersachsen Einrichtung der Arztekammer Niedersachsen Korperschaft des Offentlichen Rechts over certain property situated in the UK. 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 EUR100m.

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.

27. Securitisations and Special Purpose Entities

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

The aggregate balance sheet value in relation to SPEs is shown below.

Group	**2005 US$M**	**2004 US$M**
Assets		
Cash and due from banks	965	1,100
Securities purchased under resale agreements and securities borrowing transactions	1,114	1,045
Loans and receivables	593	692
Trading assets	2,559	1,550
Other assets	34	2
Total assets	**5,265**	**4,389**
Liabilities		
Deposits	1,550	1,595
Trading liabilities	163	102
Short term borrowings	714	879
Long term debt	2,630	1,653
Other liabilities	208	160
Total liabilities	**5,265**	**4,389**

28. Fair Value of Financial Instruments

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, fixed assets, equity method investments and pension and benefit obligations are excluded.

28. Fair Value of Financial Instruments (continued)

Quoted market prices, when available, are used as the measure of fair value. In cases where quoted market prices are not available, fair values are determined using present value estimates or other valuation techniques, for example, the present value of estimated expected future cash flows using discount rates commensurate with the risks involved, option-pricing models, matrix pricing, option-adjusted spread models, and fundamental analysis. Fair value estimation techniques normally incorporate assumptions that market participants would use in their estimates of values, future revenues, and future expenses, including assumptions about interest rates, default, prepayment and volatility. Because assumptions are inherently subjective in nature, the estimated fair values cannot be substantiated by comparison to independent market quotes and, in many cases, the estimated fair values would not necessarily be realised in an immediate sale or settlement of the instrument.

For cash and other liquid assets and money market instruments maturing within one year, the fair value is assumed to approximate to book value, given the short term nature of these instruments. This assumption is also applied to receivables and payables from the insurance business. For those items with a stated maturity exceeding three months, fair value is calculated using a discounted cash flow analysis.

For non-impaired loans where quoted market prices are available, the fair value is based on such prices. For variable rate loans which are repriced within three months, the book value is used as a reasonable estimate of fair value. For other non-impaired loans, the fair value is estimated by discounting contractual cash flows using the market interest rates for loans with similar characteristics. For impaired loans, the book value, net of valuation adjustments, approximates to fair value. The securities and precious metals trading portfolio is carried on the balance sheet at fair value.

The fair values of positive replacement values of derivative instruments, negative replacement values of derivative instruments, financial investments from the banking business, investments from the insurance business, and non-consolidated participations are based on quoted market prices. Where these are not available, fair values are based on the quoted market prices of comparable instruments, or are estimated by discounting estimated future cash flows or using other valuation techniques.

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

For medium term notes, bonds and mortgage-backed bonds, fair values are estimated using quoted market prices or by discounting the remaining contractual cash flows using a rate at which the Group could issue debt with a similar remaining maturity as at the balance sheet date.

28. Fair Value of Financial Instruments (continued)

Group		**2005**		**2004**
	Book value US$M	**Fair value US$M**	**Book value US$M**	**Fair value US$M**
Financial Assets				
Cash and due from banks	4,860	4,860	491	491
Interest-bearing deposits with banks	601	601	1,879	1,879
Securities purchased under resale agreements and securities borrowing transactions	11,031	11,031	9,544	9,544
Trading assets	188,236	188,236	73,793	73,793
Other financial assets	4,815	4,815	4,169	4,260
Loans and receivables	8,131	8,163	4,426	4,426
Financial Liabilities				
Deposits	4,481	4,481	2,165	2,165
Securities sold under repurchase agreements and securities lending transactions	14,052	14,052	6,224	6,224
Trading liabilities	145,699	145,699	38,638	38,638
Other financial liabilities	23,023	23,023	-	-
Short term borrowings	22,097	22,097	22,428	22,428
Long term debt	5,174	5,179	20,857	21,152

Bank		**2005**		**2004**
	Book value US$M	**Fair value US$M**	**Book value US$M**	**Fair value US$M**
Financial Assets				
Cash and due from banks	3,765	3,765	271	271
Interest-bearing deposits with banks	601	601	1,879	1,879
Securities purchased under resale agreements and securities borrowing transactions	11,032	11,032	9,544	9,544
Trading assets	187,725	187,725	73,522	73,522
Other financial assets	4,815	4,815	4,169	4,260
Loans and receivables	8,136	8,168	4,440	4,440
Financial Liabilities				
Deposits	4,302	4,302	2,312	2,312
Securities sold under repurchase agreements and securities lending transactions	15,471	15,471	6,224	6,224
Trading liabilities	145,652	145,652	38,602	38,602
Other financial liabilities	20,895	20,895	-	-
Short term borrowings	21,398	21,398	23,235	23,235
Long term debt	5,259	5,264	20,598	20,893

For the year ended 31 December 2005, the amount recognised in profit or loss during the period for financial instruments estimated using a valuation technique and entity specific inputs was a loss of US$60m.

The comparative figures for 2004 shown above are based on UK GAAP (see note 2c). The changes to the accounting policies as of 1 January 2005 which arise from the adoption of IFRS are disclosed in note 31.

29. Assets Pledged or Assigned

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

Group and Bank

	2005 US$M	2004 US$M
Fair value of collateral received where there exists a right to resell or repledge	4,297	5,977
Fair value of collateral received which has been resold or repledged where the right to resell or repledge existed	1,128	1,969

As at 31 December 2005 and 2004, 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.

The following table shows other information:

Group and Bank

	2005 US$M	2004 US$M
UK banking cash reserves	2	1
Cash restricted under UK and foreign banking regulations	2	1

30. Financial Instruments Risk Position

Overview

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

Risk management principles

The prudent taking of risk is fundamental to the business of Credit Suisse Group. The primary objectives of risk management are to protect the financial strength and the reputation of the Group. The Group's risk management framework is based on the following principles, which apply universally across all businesses and risk types.

- Protection of financial strength: Credit Suisse Group manages risk in order to limit the impact of potentially adverse events on the Group's capital and income. The Group's risk appetite is to be consistent with its financial resources.
- Protection of reputation: The value of the Credit Suisse Group franchise depends on the Group's reputation. Protecting a strong reputation is both fundamental and an overriding concern for all staff members.
- Risk transparency: Risk transparency is essential so that risks are well understood by senior management and can be balanced against business goals.
- Management accountability: The various businesses are organised into segments that own the comprehensive risks assumed through their operations. Management for each segment is responsible for the active management of their respective risk exposures and the return for the risks taken.

30. Financial Instruments Risk Position (continued)

- Independent oversight: Risk management is a structured process to identify, measure, monitor and report risk. The risk management, controlling and legal and compliance functions operate independently of the front office to ensure the integrity of the risk and control processes. The risk management functions are responsible for implementing all relevant risk policies, developing tools to assist senior management to determine risk appetite and assessing the overall risk profile of the Group.

Risk management oversight

Risk management oversight is performed at several levels of the organisation. The Group has adapted its existing framework to its new organisational structure. In addition to various Group level boards and committees, key responsibilities lie with the following management bodies and committees.

Risk management oversight at the Credit Suisse management levels as at 1 January 2006

- Credit Suisse Executive Management (Chief Executive Officers and Executive Boards): Responsible for implementing the strategy and actively managing its portfolio of businesses and its risk profile with the objective of balancing risk and return appropriately in the prevailing market conditions.
- Strategic Risk Management (SRM): At Credit Suisse, SRM is a separate function with responsibility for assessing the overall risk profile both on a bank-wide level and for individual businesses, and recommending corrective action if necessary. SRM reports to the Chief Risk Officer of Credit Suisse.
- Risk Measurement and Management (RMM): RMM is a separate function responsible for: the measurement and reporting of credit risk, market risk, operational risk and economic risk capital data; managing risk limits; and establishing policies on market risk and economic risk capital. RMM reports to the Chief Risk Officer of Credit Suisse.
- Credit Risk Management (CRM): CRM is a separate 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 segmental and business area's credit portfolios. CRM reports to the Chief Risk Officer of Credit Suisse.

Credit Suisse risk management committees as at 1 January 2006

- Capital Allocation and Risk Management Committee (CARMC): is responsible for supervising and directing the Credit Suisse risk profile on a consolidated basis, recommending risk limits to the Credit Suisse Board of Directors and its Risk Committee and for establishing and allocating risk limits within Credit Suisse. CARMC is also responsible for supervising the development of the Credit Suisse banking businesses' balance sheets and for reviewing and addressing operational risk issues at Credit Suisse. CARMC divides its oversight into three cycles: Asset and Liability Management; Position Risk for Market and Credit Risk; and Operational Risk.
- Risk Processes and Standards Committee (RPSC): is responsible for establishing and approving standards regarding risk management and risk measurement.
- Credit Portfolio & Provisions Review Committee: is responsible for reviewing the quality of the credit portfolio, with a focus on the development of impaired assets and the assessment of related provisions and valuation allowances.
- Reputational Risk Review Committee: is responsible for setting the policy regarding reputational risks within Credit Suisse.
- Divisional Risk Management Committees (RMC): Within the investment banking, private banking and asset management divisions of Credit Suisse, the respective divisional RMC is responsible for supervising and directing the divisional risk profile on a consolidated basis, for establishing and implementing risk management policies, recommending risk limits to CARMC and establishing and allocating risk limits within the division.

Risk limits

Fundamental to risk management is the establishment and maintenance of a sound system of risk limits to control the range of risks inherent in the business activities. The size of the limits reflects the Group's risk appetite given the market environment, the business strategy and the financial resources available to absorb losses.

30. Financial Instruments Risk Position (continued)

Credit Suisse Group uses an Economic Risk Capital (ERC) limit structure to limit overall position risk-taking. The level of risk incurred by the segments is further restricted by specific limits, for example with respect to trading exposures, the mismatch of interest earning assets and interest earning liabilities and emerging market country exposures. Within the businesses, the risk limits are allocated to lower organisational levels; numerous other limits are established to control specific risks and a system of individual counterparty credit limits is used to limit concentration risks.

Economic Risk Capital

Economic risk capital represents current market best practice for measuring and reporting all quantifiable risks. It is called 'economic' risk capital because it measures risk in terms of economic realities rather than regulatory or accounting rules. Credit Suisse Group uses an economic risk capital model (ERC) as a consistent and comprehensive risk management tool, which also forms an important element in the capital management and planning process and an element in the performance measurement process.

ERC is calculated separately for position risk, operational risk and expense risk. These three risk categories measure very different types of risk:

- Position risk ERC — the level of unexpected loss in economic value on the 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).
- Operational risk ERC — the level of loss resulting from inadequate or failed internal processes, people and systems or from external events over a one-year horizon that is exceeded with a small probability (0.03%). Estimating this type of ERC is inherently more subjective, and reflects both quantitative tools as well as senior management judgement.
- Expense risk ERC — the difference between expenses and revenues in a severe market event, exclusive of the elements captured by position risk ERC and operational risk ERC.

a. 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 market parameters, such as market volatilities. The Group defines its market risk as potential changes in fair values of financial instruments in response to market movements. A typical transaction may be exposed to a number of different market risks.

Credit Suisse Group devotes considerable resources to ensuring that market risk is comprehensively captured, accurately modelled and reported, and effectively managed. Trading and non-trading portfolios are managed at various organisational levels, from the Group-wide down to specific business areas. Credit Suisse Group uses market risk measurement and management methods designed to meet or exceed industry standards. These include general tools capable of calculating comparable exposures across the Group's many activities as well as focused tools that can specifically model unique characteristics of certain business areas' functions. The tools are used for internal market risk management, internal market risk reporting and external disclosure purposes. The principal measurement methodologies are Value at Risk (VaR) and scenario analysis. Additionally, the market risk exposures are also reflected in the Group's ERC calculations described above in the section entitled Economic Risk Capital. The risk management techniques and policies are regularly reviewed to ensure that they remain appropriate.

30. Financial Instruments Risk Position (continued)

Value-at-Risk
VaR measures the potential loss in terms of fair value changes over a given time interval under normal market conditions at a given 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 equities, 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 and prices serve as a basis for the statistical VaR model underlying the potential loss estimation. Credit Suisse Group uses a ten-day holding period and a confidence level of 99% calculated using, in general, a rolling two-year history of market data to model the risk in its trading portfolios. These assumptions are in agreement with the 'Amendment to the Capital Accord to Incorporate Market Risks' published by the Basel Committee on Banking Supervision in 1996 and other related international standards for market risk management. For some purposes, such as backtesting, disclosure and benchmarking with competitors, the resulting VaR figures are scaled down or calculated using one-day holding period values.

Following a detailed review of the VaR model and all related processes and controls, the Financial Services Authority first recognised the VaR model for use in the calculation of CSi's market risk capital with effect from 30 September 1998. CSi continues to receive regulatory approval for ongoing enhancements to the methodology, and the model is subject to regular reviews by regulators and auditors.

Assumptions
Credit Suisse Group uses a historical simulation model for the majority of risk types and businesses within its trading portfolios. Where insufficient data is available for such an approach, an extreme move methodology is used. The model is based on the profit and loss distribution resulting from the historical changes of market rates applied to evaluate the portfolio using, in general, a rolling two-year history. This methodology also avoids any explicit assumptions on correlation between risk factors. The VaR model uses assumptions and estimates that the Group believes are reasonable, but different assumptions or estimates could result in different estimates of VaR.

Limitations
VaR as a risk measure quantifies the potential loss on a portfolio under normal market conditions only. It is not intended to cover losses associated with unusually severe market movements (these are covered by scenario analysis). VaR also assumes that the price data from the recent past can be used to predict future events. If future market conditions differ substantially from past market conditions, then the risk predicted by VaR may be too conservative or too liberal.

Scenario analysis
Credit Suisse Group regularly performs scenario analysis for all of its business areas exposed to market risk in order to estimate the potential economic loss that could arise from extreme, but plausible, stress events. The scenario analysis calculations performed are specifically tailored towards their respective risk profile. In order to identify areas of risk concentration and potential vulnerability to stress events across the Group, the Group has developed a set of scenarios, which are consistently applied across all business areas. Key scenarios include significant movements in interest rates, equity prices and exchange rates, as well as adverse changes in counterparty default rates. 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 at the Group and the segments are regularly provided with scenario analysis estimates, scenario analysis trend information and supporting explanations to create transparency on key risk exposures and to support senior management in managing risk.

30. Financial Instruments Risk Position (continued)

Assumptions
Scenario analysis estimates the impact that could arise from extreme, but plausible, stress events 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.

Limitations
Scenario analysis estimates the loss that could arise if specific events in the economy or in financial markets were to occur. Past events seldom repeat themselves in exactly the same way. Therefore, 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.

Trading portfolios
Risk measurement and management
For the purposes of this disclosure, VaR is used for the trading portfolio, which includes those financial instruments treated as part of the 'trading book' for Bank for International Settlements regulatory capital purposes. This classification of assets as trading is done for purposes of analysing its market risk exposure, not for financial statement purposes.

Development of trading portfolio risks
The table below shows the trading-related market risk exposure for CSi on a consolidated basis, as measured by scaled one-day, 99% VaR. VaR estimates are computed 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 99th percentile loss for each individual risk type and for the total portfolio.

CSi's one-day, 99% VaR at 31 December 2005 was US$41m compared to US$27m at 31 December 2004.

Market risk in CSi trading portfolios (1-day, 99% Value-at-Risk) [1)]

	2005				2004			
In US$ milllion	Min.	Max.	Average	30.12.2005	Min.	Max.	Average	31.12.2004
Interest rate & credit spread	19.4	41.5	26.3	28.6	20.4	42.2	28.4	24.4
Foreign exchange	0.6	19.3	6.8	5.8	1.6	13.0	4.1	4.1
Equity	8.4	28.9	15.2	25.3	9.0	25.6	15.6	17.6
Commodity	0.0	6.5	1.6	3.9	0.0	0.6	0.3	0.3
Diversification Benefit	[2)]	[2)]	(20.9)	(22.4)	[2)]	[2)]	(20.7)	(19.0)
Total	19.7	48.4	29.0	41.2	19.1	38.2	27.7	27.4

1) Disclosure covers all trading books of CSi. Numbers represent 10-day VaR scaled to a 1-day holding period. 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 and distribution of trading revenues
Credit Suisse Group uses backtesting as the primary method to assess the accuracy of the VaR model used for its trading portfolios. Backtesting of the trading portfolio is performed at various organisational levels, from Credit Suisse Group overall down to more specific business areas. The backtesting process compares daily backtesting profit and loss to VaR calculated using a one-day holding period. Profit and loss used for backtesting purposes is a subset of actual trading revenue and includes only the profit and loss effects due to financial market variables such as interest rates, equity prices, foreign exchange rates and commodity prices on the previous night's positions. It excludes such items as fees, commissions, certain provisions and any trading subsequent to the previous night's positions. It is appropriate to compare this measure with VaR for backtesting purposes, since VaR assesses only the potential change in position value due to overnight movements in financial market variables. On average, an accurate one-day, 99% VaR model should have between zero and four backtesting exceptions per year. A backtesting exception occurs when the daily loss exceeds the daily VaR estimate.

30. Financial Instruments Risk Position (continued)

Non-trading portfolios

Risk measurement and management

The market risks associated with the non-trading portfolios are measured, monitored and limited using several tools, including ERC, scenario analysis, sensitivity analysis and VaR. For the purpose of this disclosure, the aggregated market risks associated with the non-trading portfolios of CSi are measured using sensitivity analysis. The sensitivity analysis for the non-trading activities measures the amount of potential change in economic value. It is not a measure for the potential impact on reported earnings, since the non-trading activities generally are not marked to market through earnings. Real estate investments and foreign exchange translation risks are not included in the following analysis.

Development of non-trading portfolio risks

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 for CSi would be a decrease in the value of the non-trading portfolio of approximately US$18m at 31 December 2005 compared to a decrease of approximately US$66m at 31 December 2004.

Interest rate risk on non-trading positions is measured using sensitivity analysis that estimates the potential change in value resulting from a 50 basis point decrease in the interest rates of developed nations and a 200 basis point decrease in the interest rates of emerging market nations. The estimated impact for CSi would be a decrease in the value of the non-trading portfolio of approximately US$14m at 31 December 2005 compared to a decrease of approximately US$35m at 31 December 2004.

Foreign exchange risk on non-trading positions is measured using sensitivity analysis that estimates the potential change in value resulting from a 10% strengthening of the US dollar against developed nation currencies and a 20% strengthening of the US dollar against emerging market nation currencies. The estimated impact for CSi would be an increase in the value of the non-trading portfolio of approximately US$62m at 31 December 2005 compared to a decrease of approximately US$23m at 31 December 2004.

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 for CSi was immaterial as at 31 December 2005 compared to an increase in the value of the non-trading portfolio of approximately US$2m at 31 December 2004.

b. Currency Risk

The Group takes on exposure to the effects of fluctuations in the prevailing foreign currency exchange rates on its financial position and cash flows. The Board sets limits on the level of exposure by currency and in total for both overnight and intra-day positions, which are monitored daily.

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

c. Credit Risk

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

30. Financial Instruments Risk Position (continued)

Definition of Counterparty Risk

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

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

Credit Risk Management Approach

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

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

- An individual counterparty and country rating system;
- A transaction rating system;
- A counterparty credit limit system;
- Country and regional concentration limits;
- A risk-based pricing methodology;
- Active credit portfolio management; and
- A credit risk provisioning methodology.

CSi evaluates credit risk through a credit request and approval process, ongoing credit and counterparty monitoring and a credit quality review process. Experienced credit officers prepare credit requests and assign internal ratings based on their analysis and evaluation of the clients' creditworthiness and the type of credit transaction. The analysis emphasises a forward looking approach, concentrating on economic trends and financial fundamentals. In addition, analysts make use of peer analysis, industry comparisons and other quantitative tools. The final rating also requires the consideration of qualitative factors relating to the counterparty, its industry and management. CSi has established a counterparty credit risk classification system with which counterparties are rated and classified on a regular basis. This system affords consistency in (i) statistical and other credit risk analysis; (ii) credit risk monitoring; (iii) risk-adjusted performance measurement; and (iv) economic risk capital usage/allocation. It is also used for certain financial accounting purposes.

Each counterparty that generates a potential or actual credit risk exposure is assigned a risk rating class. Based on the structure of each transaction, an estimate of expected loss in the event of a counterparty default is also assigned. The counterparty credit rating is used in combination with credit (or credit equivalent) exposure and the loss given default assumption to estimate the potential credit loss. These inputs allow CSi to price transactions involving credit risk more accurately, based on risk/return estimates. Pricing and the terms of the credit extension are sensitive to many of the credit risk factors described in this section, and are intended to reflect more accurately the situation of the borrower as well as CSi's interests and priorities in negotiating the extension of credit.

Credit committees and senior credit managers make credit decisions on a transaction-by-transaction basis, determined by levels appropriate to the amount and complexity of the transactions, and based on the overall exposures to counterparties and their related entities. These approval authority levels are set out within the governing principles of CSi.

30. Financial Instruments Risk Position (continued)

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 or 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 trends analysis into consideration. CSi regularly analyses its industry diversification and concentration in selected areas.

A rigorous credit quality review process has been established to provide an early identification of possible changes in the creditworthiness of counterparties 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 volume 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 risk management and credit committees of CSi determine 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.

Risk mitigation

CSi actively manages its credit exposure utilising credit hedges, cash and marketable securities for risk mitigation. 'Credit hedges' represent the notional exposure that has been transferred to other market counterparties, generally through the use of credit default swaps.

Counterparty Exposure pre Collateral by Rating

		2005			**2004**
	US$M	**%**	**%**	**US$M**	
AAA	3,393	9		6,108	17
AA+ to AA-	8,807	25		10,429	28
A+ to A-	11,517	32		9,054	25
BBB+ to BBB-	3,404	10		5,495	15
BB+ to BB-	4,076	11		2,979	8
B+ and below	4,624	13		2,963	7
	35,821			**37,028**	

Unsecured Exposure by Rating (including provisions)

		2005		**2004**
	US$M	**%**	**US$M**	**%**
AAA	3,062	15	5,533	22
AA+ to AA-	4,722	24	7,521	29
A+ to A-	5,437	28	5,773	23
BBB+ to BBB-	1,969	10	2,933	11
BB+ and below	4,548	23	3,819	15
	19,738		**25,579**	

30. Financial Instruments Risk Position (continued)

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.

There were no significant concentrations of credit risk by country or by industry.

d. 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. Credit Suisse'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 Credit Suisse's economists.

Country limits for emerging markets are approved annually by the Board of Directors of Credit Suisse Group, following recommendations from CARMC. The measurement of exposures against country limits is undertaken by RMM with weekly 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 Credit Suisse has lent or committed to lend. The day-to-day management of country exposure is assigned to each of the core businesses in accordance with its business authorisations and limit allocations. RMM and CRM provide independent oversight to ensure that the core businesses operate within their limits. CRM is responsible for periodically adjusting these limits to reflect changing credit fundamentals and business volumes.

e. 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, CSi manages its risk through confirmation and affirmation of transaction details with counterparties. In addition, it also proactively seeks to manage the timing of settlement instructions to its agents and the reconciliation of incoming payments in order to reduce the window of exposure. CRM considers these factors in deciding counterparty risk limits.

f. Legal Risk

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

CSi 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 CSi's business activities or other sanctions. CSi 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, CSi 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.

30. Financial Instruments Risk Position (continued)

g. Operational Risk

Operational risk is the risk of loss resulting from inadequate or failed internal processes, people and systems or from external events. The 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, the Group transfers operational risks to third party insurance companies.

Operational risk is inherent in most aspects of the 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 intrinsically difficult to measure. The Group therefore manages operational risk differently from market and credit risk. The Group believes that effective management of operational risks requires ownership by the management responsible for the relevant business process. Operational risk is thus controlled through a network of controls, procedures, reports and responsibilities. Within the Group, each individual business area and management level takes responsibility for its own operational risks and provides adequate resources and procedures for the management of those risks.

Each segment takes responsibility for its own operational risks and has a dedicated Operational Risk function. In addition, the Group have established central teams that focus on the coordination of a consistent policy, tools and practices throughout the organisation for the management, measurement, monitoring and reporting of relevant operational risks. These teams are also responsible for the overall operational risk measurement methodology and capital calculations. Knowledge and experience are shared throughout the Group to maintain a coordinated approach.

In addition to the quarterly firm-level CARMC meetings on operational risk, regular operational risk committees meet at the segmental level, with representation from senior staff in all the relevant functions. Credit Suisse utilises a number of firm-wide tools for the management, measurement, monitoring and reporting of operational risk. These include risk and control self-assessments; the collection, reporting and analysis of internal and external loss data; and key risk indicator reporting.

Credit Suisse Group has employed the same methodology to calculate the economic risk capital for operational risk since 2000, and plans to use a similar methodology for the Advanced Measurement Approach under the Basel II Accord. This methodology is based upon the identification of a number of key risk scenarios that describe all of the major operational risks that the Group currently faces. Groups of senior staff review each scenario and discuss how likely it is to occur and the likely severity of loss if it were to happen: internal and external loss data, along with certain business environment and internal control factors (e.g. Control Self-Assessment results, Key Risk Indicators) are used as significant inputs into these discussions. Based on the output from these meetings, the Group enters the scenario probabilities and severities into an event model that generates a loss distribution. Insurance mitigation is included in the capital assessment where appropriate, by considering the level of insurance coverage for each scenario, incorporating haircuts as appropriate. Based on the loss distribution, the level of capital required to cover operational risk can then be calculated.

30. Financial Instruments Risk Position (continued)

h. Reputational Risk

Credit Suisse's policy is to avoid any action or transaction that brings with it a potentially unacceptable level of risk to Credit Suisse's 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 Credit Suisse, the relevant business proposal is required to be submitted to Credit Suisse's Reputational Risk Review Process. This involves a vetting of the proposal by senior business management, and its subsequent referral to one of the Bank's Reputational Risk Approvers, each of whom is independent of the business divisions and has authority to approve, reject, or impose conditions on Credit Suisse's participation.

i. Liquidity Risk

The Treasury department manages the day-to-day liquidity position of Credit Suisse as a group. CSi is managed within the framework below.

Liquidity is managed centrally to ensure that sufficient funds are either on hand or readily available at short notice in the event that it experiences any impairment of its ability to borrow in the unsecured debt markets. This ensures that, even in the event of a liquidity dislocation, Credit Suisse Group has sufficient funds to repay maturing liabilities without requiring any balance sheet reduction. Credit Suisse's liquidity disciplines are segregated into two main funding franchises:

1. Those funds raised directly by Credit Suisse Group and its branches, with access to stable deposit-based core funds and the interbank markets. CSi has direct access to Credit Suisse's bank sourced funding and therefore constitutes part of this 'Bank Funding Franchise'.

2. Those funds raised by fellow subsidiaries, particularly CS (USA) Inc, the SEC registered US holding company – the 'Non-Bank Funding Franchise'.

Secondary sources of liquidity ensure availability of alternative funding to meet business plans and commercial commitments. Both funding franchises have access to different forms of secondary liquidity through their ability to access secured funding via repurchase and other secured financing markets. These markets have proved to be reliable even in high stress conditions. The liquidity position is overseen by Treasury and reported regularly to CARMC.

j. Corporate Asset And Liability Management

The Treasury department at Credit Suisse Group also oversees corporate policy with respect to interest rate and foreign exchange exposure, as well as a range of other important policy areas including debt maturity profile, internal and external capitalisation and intercompany funding. Credit Suisse Group minimises interest rate and foreign currency exposures from a corporate perspective. Trading divisions are authorised to take such risks as part of their business strategies, within limits set by CARMC.

30. Financial Instruments Risk Position (continued)

k. Cash flow and Fair Value Interest Rate Risk

Cash flow interest rate risk is the risk that the future cash flows of a financial instrument will fluctuate because of changes in market interest rates. Fair value interest rate risk is the risk that the value of a financial instrument will fluctuate because of changes in market interest rates. The Group takes on exposure to the effects of fluctuations in the prevailing levels of market interest rates on both its fair value and cash flow risks. Interest margins may increase as a result of such changes but may reduce or create losses in the event that unexpected movements arise. The Board sets limits on the level of mismatch of interest rate repricing that may be undertaken, which is monitored daily.

A discussion of the Value at Risk (VaR) methodology used by the Bank for managing interest rate risk is provided in section a) of this note.

31. Explanation of Transition to IFRS

As stated in note 2, these are the Group's first consolidated financial statements prepared in accordance with IFRS.

The accounting policies set out in note 2 have been applied in preparing the financial statements for the year ended 31 December 2005, and the comparative information presented in these financial statements for the year ended 31 December 2004 and in the preparation of the opening IFRS balance sheet at 1 January 2005.

Transitional arrangements

On transition to IFRS, an entity is required to apply IFRS retrospectively, except where an exemption is available under IFRS 1 'First-time Adoption of International Financial Reporting Standards'. The following paragraph is a summary of the key elections from IFRS 1 that were made by the Group.

The Group has adopted the exemption in IFRS 1 not to prepare comparative information in accordance with IAS 32 'Financial Instruments: Disclosure and Presentation' and IAS 39 'Financial Instruments: Recognition and Measurement'.

Reclassifications

The Bank has presented financial statements in a format that is aligned with the ultimate holding company where permitted by IFRS.

Reclassification (before remeasurement) of balances from UK GAAP to IFRS format only as at 31 December 2003: Group

	UK GAAP	Reclassification	Reclassified UK GAAP
Assets	**US$M**	**US$M**	**US$M**
Cash and due from banks	-	461	461
Interest-bearing deposits with banks	-	23	23
Securities purchased under resale agreements and securities borrowing transactions	-	4,306	4,306
Loans and advances to banks	2,155	(2,155)	-
Receivables for securities sold	5,814	(5,814)	-
Loans and advances to customers	8,828	(8,828)	-
Trading assets	-	56,104	56,104
Debt securities	22,852	(22,852)	-
Equity shares and other variable yield securities	12,251	(12,251)	-
Other trading balances	23,222	(23,222)	-
Other financial assets	-	3,143	3,143
Loans and receivables	-	3,308	3,308
Current tax assets	-	60	60
Deferred tax assets	-	58	58
Other assets	325	7,636	7,961
Intangible assets	-	23	23
Tangible fixed assets	369	(369)	-
Property, plant and equipment	-	369	369
Total assets	**75,816**	**-**	**75,816**
Liabilities			
Deposits	-	3,760	3,760
Securities sold under repurchase agreements and securities lending transactions	-	3,079	3,079
Deposits by banks	20,842	(20,842)	-
Customer accounts	4,533	(4,533)	-
Payables for securities purchased	3,601	(3,601)	-
Trading liabilities	-	32,893	32,893
Short positions in securities	6,223	(6,223)	-
Debt securities in issue	7,253	(7,253)	-
Short term borrowings	-	10,621	10,621
Current tax liabilities	-	44	44
Long term debt	-	14,473	14,473
Other trading balances	26,898	(26,898)	-
Other liabilities	706	7,641	8,347
Provision for liabilities	26	(26)	-
Subordinated debt	3,135	(3,135)	-
Total liabilities	**73,217**	**-**	**73,217**
Shareholders' equity			
Called up share capital	932	-	932
Share premium account	433	-	433
Retained earnings	1,234	-	1,234
Total liabilities and shareholders’ equity	**75,816**	**-**	**75,816**

Reclassification (before remeasurement) of balances from UK GAAP to IFRS format only as at 31 December 2003: Bank

	UK GAAP	Reclassification	Reclassified UK GAAP
Assets	**US$M**	**US$M**	**US$M**
Cash and due from banks	-	353	353
Interest-bearing deposits with banks	-	23	23
Securities purchased under resale agreements and securities borrowing transactions	-	4,306	4,306
Loans and advances to banks	2,049	(2,049)	-
Receivables for securities sold	5,814	(5,814)	-
Loans and advances to customers	8,802	(8,802)	-
Trading assets	-	56,104	56,104
Debt securities	22,852	(22,852)	-
Equity shares and other variable yield securities	12,251	(12,251)	-
Other trading balances	23,222	(23,222)	-
Other financial assets	-	3,143	3,143
Loans and receivables	-	3,308	3,308
Current Tax assets	-	60	60
Deferred tax assets	-	58	58
Other assets	392	7,612	8,004
Investments in subsidiary undertakings	767	-	767
Intangible assets	-	23	23
Tangible fixed assets	369	(369)	-
Property, plant and equipment	-	369	369
Total assets	**76,518**	**-**	**76,518**
Liabilities			
Deposits	-	3,626	3,626
Securities sold under repurchase agreements and securities lending transactions	-	3,079	3,079
Deposits by banks	20,709	(20,709)	-
Customer accounts	5,580	(5,580)	-
Payables for securities purchased	3,601	(3,601)	-
Trading liabilities	-	32,894	32,894
Short positions in securities	6,223	(6,223)	-
Debt securities in issue	7,253	(7,253)	-
Short term borrowings	-	11,668	11,668
Current tax liabilities	-	41	41
Long term debt	-	14,473	14,473
Other trading balances	26,900	(26,900)	-
Other liabilities	908	7,646	8,554
Provision for liabilities	26	(26)	-
Subordinated debt	3,135	(3,135)	-
Total liabilities	**74,335**	**-**	**74,335**
Shareholders' equity			
Called up share capital	932	-	932
Share premium account	433	-	433
Retained earnings	818	-	818
Total liabilities and shareholders' equity	**76,518**	**-**	**76,518**

Reclassification (before remeasurement) of balances from UK GAAP to IFRS format only as at 31 December 2004: Group

	UK GAAP	Reclassification	Reclassified UK GAAP
Assets	**US$M**	**US$M**	**US$M**
Cash and due from banks	-	491	491
Interest-bearing deposits with banks	-	1,879	1,879
Securities purchased under resale agreements and securities borrowing transactions	-	9,544	9,544
Loans and advances to banks	3,845	(3,845)	-
Receivables for securities sold	13,191	(13,191)	-
Loans and advances to customers	11,529	(11,529)	-
Trading assets	-	73,793	73,793
Debt securities	29,474	(29,474)	-
Equity shares and other variable yield securities	19,437	(19,437)	-
Other trading balances	25,940	(25,940)	-
Other financial assets	-	4,169	4,169
Loans and receivables	-	4,426	4,426
Current tax assets	-	89	89
Deferred tax assets	-	99	99
Other assets	688	8,859	9,547
Intangible assets	-	67	67
Tangible fixed assets	356	(356)	-
Property, plant and equipment	-	356	356
Total assets	**104,460**	**-**	**104,460**
Liabilities			
Deposits	-	2,165	2,165
Securities sold under repurchase agreements and securities lending transactions	-	6,224	6,224
Deposits by banks	27,890	(27,890)	-
Customer accounts	7,857	(7,857)	-
Payables for securities purchased	9,292	(9,292)	-
Trading liabilities	-	38,638	38,638
Short positions in securities	10,978	(10,978)	-
Debt securities in issue	12,405	(12,405)	-
Short term borrowings	-	22,428	22,428
Current tax liabilities	-	3	3
Long term debt	-	20,857	20,857
Other trading balances	28,126	(28,126)	-
Other liabilities	913	9,710	10,623
Provision for liabilities	11	(11)	-
Subordinated debt	3,466	(3,466)	-
Total liabilities	**100,938**	**-**	**100,938**
Shareholders' equity			
Called up share capital	1,657	-	1,657
Share premium account	433	-	433
Retained earnings	1,432	-	1,432
Total liabilities and shareholders’ equity	**104,460**	**-**	**104,460**

Reclassification (before remeasurement) of balances from UK GAAP to IFRS format only as at 31 December 2004: Bank

	UK GAAP	Reclassification	Reclassified UK GAAP
Assets	**US$M**	**US$M**	**US$M**
Cash and due from banks	-	280	280
Interest-bearing deposits with banks	-	1,879	1,879
Securities purchased under resale agreements and securities borrowing transactions	-	9,544	9,544
Loans and advances to banks	3,634	(3,634)	-
Receivables for securities sold	13,191	(13,191)	-
Loans and advances to customers	11,087	(11,087)	-
Trading assets	-	73,565	73,565
Debt securities	29,215	(29,215)	-
Equity shares and other variable yield securities	19,348	(19,348)	-
Other trading balances	25,940	(25,940)	-
Other financial assets	-	4,169	4,169
Loans and receivables	-	4,426	4,426
Current tax assets	-	89	89
Deferred tax assets	-	99	99
Other assets	759	8,830	9,589
Investments in subsidiary undertakings	1,255	(533)	722
Intangible assets	-	67	67
Tangible fixed assets	356	(356)	-
Property, plant and equipment	-	356	356
Total assets	**104,785**	**-**	**104,785**
Liabilities			
Deposits	-	2,022	2,022
Securities sold under repurchase agreements and securities lending transactions	-	6,224	6,224
Deposits by banks	27,738	(27,738)	-
Customer accounts	8,972	(8,972)	-
Payables for securities purchased	9,292	(9,292)	-
Trading liabilities	-	38,631	38,631
Short positions in securities	10,978	(10,978)	-
Debt securities in issue	12,146	(12,146)	-
Short term borrowings	-	23,534	23,534
Current tax liabilities	-	5	5
Long term debt	-	20,598	20,598
Other trading balances	28,120	(28,120)	-
Other liabilities	996	9,709	10,705
Provision for liabilities	11	(11)	-
Subordinated debt	3,466	(3,466)	-
Total liabilities	**101,719**	**-**	**101,719**
Shareholders' equity			
Called up share capital	1,657	-	1,657
Share premium account	433	-	433
Retained earnings	976	-	976
Total liabilities and shareholders’ equity	**104,785**	**-**	**104,785**

Reclassification (before remeasurement) of balances from UK GAAP to IFRS format only as at 31 December 2004: Group

	UK GAAP US$M	Reclassification US$M	Reclassified UK GAAP US$M
Interest income	-	676	676
Interest expense	-	(1,413)	(1,413)
Net interest expense	**-**	**-**	**(737)**
Net commissions and fees	-	(109)	(109)
Trading revenues	-	2,462	2,462
Other revenues	-	(172)	(172)
Net trading revenue	1,557	(1,557)	-
Interest expense on subordinated liabilities	(113)	113	-
Total non interest revenues	**-**	**-**	**2,181**
Net operating income	**1,444**	**-**	**1,444**
Impairment losses on loans and advances	-	(128)	(128)
Total Income	-	-	**1,316**
Administration expenses	(1,110)	1,110	-
Compensation and benefits	-	(515)	(515)
Other expenses	-	(604)	(604)
Depreciation and amortisation, net of recharges	(9)	9	-
Other provisions	(128)	128	-
Total operating expenses			**(1,119)**
Profit before tax			**197**
Operating Profit on Ordinary Activities Before Taxation	**197**	**-**	**-**
Tax credit/ (charge) on profit on ordinary activities	25	(25)	-
Income tax expense	-	25	25
Profit for the year attributable to the shareholders	**222**	**-**	**-**
Dividends - non equity	(24)	-	-
Net Income	**-**	**-**	**222**
Retained Profit for the year	**198**	**-**	**-**

Reconciliation of UK GAAP to IFRS Consolidated Balance Sheet as at 1 January 2004 (Excluding IAS32/39)

	1 January 2004 Reclassified UK GAAP	Share-based payments (a)	Consolidation (b)	Deferred Tax (c)	1 January 2004 under IFRS
	US$M	US$M	US$M	US$M	US$M
Assets					
Cash and due from banks	461	-	535	-	996
Interest-bearing deposits with banks	23	-	-	-	23
Securities purchased under resale agreements and securities borrowing transactions	4,306	-	-	-	4,306
Trading assets	56,104	-	794	-	56,898
Other financial assets	3,143	-	-	-	3,143
Loans and receivables	3,308	-	157	-	3,465
Current tax assets	60	-	-	-	60
Deferred tax assets	58	-	-	3	61
Other assets	7,961		-	-	7,961
Intangible assets	23	-	-	-	23
Property, plant and equipment	369	-	-	-	369
Total assets	**75,816**	**-**	**1,486**	**3**	**77,305**

Reconciliation of UK GAAP to IFRS Consolidated Balance Sheet as at 1 January 2004 (Excluding IAS32/39)

	1 January 2004 Reclassified UK GAAP	Share-based payments (a)	Consolidation (b)	Deferred Tax (c)	1 January 2004 under IFRS
	US$M	US$M	US$M	US$M	US$M
Liabilities					
Deposits	3,760	-	141	-	3,901
Securities sold under repurchase agreements and securities lending transactions	3,079	-	-	-	3,079
Trading liabilities	32,893	-	(167)	-	32,726
Short term borrowings	10,621	-	513	-	11,134
Current tax liabilities	44	-	-	-	44
Long term debt	14,473	-	983	-	15,456
Other liabilities	8,347	11	16	-	8,374
Total liabilities	**73,217**	**11**	**1,486**	**-**	**74,714**
Shareholders' equity					
Called up share capital	932	-	-	-	932
Share premium account	433	-	-	-	433
Retained earnings	1,234	(11)	-	3	1,226
Total shareholders' equity	**2,599**	**(11)**	**-**	**3**	**2,591**
Total liabilities and shareholders' equity	**75,816**	**-**	**1,486**	**3**	**77,305**

Reconciliation of UK GAAP to IFRS Bank Balance Sheet as at 1 January 2004 (Excluding IAS32/39)

	1 January 2004 Reclassified UK GAAP	Share-based payments (a)	Consolidation (b)	Deferred Tax (c)	1 January 2004 under IFRS
	US$M	US$M	US$M	US$M	US$M
Assets					
Cash and due from banks	353	-	-	-	353
Interest-bearing deposits with banks	23	-	-	-	23
Securities purchased under resale agreements and securities borrowing transactions	4,306	-	-	-	4,306
Trading assets	56,104	-	-	-	56,104
Other financial assets	3,143	-	-	-	3,143
Loans and receivables	3,308	-	-	-	3,308
Current tax assets	60	-	-	-	60
Deferred tax assets	58	-	-	3	61
Other assets	8,004	-	-	-	8,004
Investments in subsidiary undertakings	767	-	-	-	767
Intangible assets	23	-	-	-	23
Property, plant and equipment	369	-	-	-	369
Total assets	**76,518**	**-**	**-**	**3**	**76,521**

Reconciliation of UK GAAP to IFRS Bank Balance Sheet as at 1 January 2004 (Excluding IAS32/39)

	1 January 2004 Reclassified UK GAAP	Share-based payments (a)	Consolidation (b)	Deferred Tax (c)	1 January 2004 under IFRS
	US$M	US$M	US$M	US$M	US$M
Liabilities					
Deposits	3,626	-	-	-	3,626
Securities sold under repurchase agreements and securities lending transactions	3,079	-	-	-	3,079
Trading liabilities	32,894	-	-	-	32,894
Short term borrowings	11,668	-	-	-	11,668
Current tax liabilities	41	-	-	-	41
Long term debt	14,473	-	-	-	14,473
Other liabilities	8,554	11	-	-	8,565
Total liabilities	**74,335**	**11**	**-**	**-**	**74,346**
Shareholders' equity					
Called up share capital	932	-	-	-	932
Share premium account	433	-	-	-	433
Retained earnings	818	(11)	-	3	810
Total shareholders' equity	**2,183**	**(11)**	**-**	**3**	**2,175**
Total liabilities and shareholders' equity	**76,518**	**-**	**-**	**3**	**76,521**

Reconciliation of UK GAAP to IFRS Consolidated Balance Sheet as at 31 December 2004 (Excluding IAS32/39)

	31 December 2004 Reclassified UK GAAP	Share-based payments (a)	Consolidation (b)	Deferred Tax (c)	31 December 2004 under IFRS (excluding IAS 32/39)
	US$M	US$M	US$M	US$M	US$M
Assets					
Cash and due from banks	491	-	997	-	1,488
Interest-bearing deposits with banks	1,879	-	-	-	1,879
Securities purchased under resale agreements and securities borrowing transactions	9,544	-	-	-	9,544
Trading assets	73,793	-	(326)	-	73,467
Other financial assets	4,169	-	-	-	4,169
Loans and receivables	4,426	-	157	-	4,583
Current tax assets	89	-	-	-	89
Deferred tax assets	99	-	-	11	110
Other assets	9,547	-	-	-	9,547
Intangible assets	67	-	-	-	67
Property, plant and equipment	356	-	-	-	356
Total assets	**104,460**	**-**	**828**	**11**	**105,299**

Reconciliation of UK GAAP to IFRS Consolidated Balance Sheet as at 31 December 2004 (Excluding IAS32/39)

	31 December 2004 Reclassified UK GAAP	Share-based payments (a)	Consolidation (b)	Deferred Tax (c)	31 December 2004 under IFRS (excluding IAS 32/39)
	US$M	US$M	US$M	US$M	US$M
Liabilities					
Deposits	2,165	-	(67)	-	2,098
Securities sold under repurchase agreements and securities lending transactions	6,224	-	(1,045)	-	5,179
Trading liabilities	38,638	-	(48)	-	38,590
Short term borrowings	22,428	-	581	-	23,009
Current tax liabilities	3	-	-	-	3
Long term debt	20,857	-	1,394	-	22,251
Other liabilities	10,623	35	13	-	10,671
Total liabilities	**100,938**	**35**	**828**	**-**	**101,801**
Shareholders' equity					
Called up share capital	1,657	-	-	-	1,657
Share premium account	433	-	-	-	433
Retained earnings	1,432	(35)	-	11	1,408
Total shareholders' equity	**3,522**	**(35)**	**-**	**11**	**3,498**
Total liabilities and shareholders' equity	**104,460**	**-**	**828**	**11**	**105,299**

Reconciliation of UK GAAP to IFRS Bank Balance Sheet as at 31 December 2004 (Excluding IAS32/39)

	31 December 2004 Reclassified UK GAAP	Share based payments (a)	Consolidation (b)	Deferred Tax (c)	31 December 2004 under IFRS (excluding IAS 32/39)
	US$M	US$M	US$M	US$M	US$M
Assets					
Cash and due from banks	280	-	(9)	-	271
Interest-bearing deposits with banks	1,879	-	-	-	1,879
Securities purchased under resale agreements and securities borrowing transactions	9,544	-	-	-	9,544
Trading assets	73,565	-	(43)	-	73,522
Other financial assets	4,169	-	-	-	4,169
Loans and receivables	4,426	-	14	-	4,440
Current tax assets	89	-	-	-	89
Deferred tax assets	99		-	11	110
Other assets	9,589	-	-	-	9,589
Investments in subsidiary undertakings	722	-	-	-	722
Intangible assets	67	-	-	-	67
Property, plant and equipment	356	-	-	-	356
Total assets	**104,785**	**-**	**(38)**	**11**	**104,758**

Reconciliation of UK GAAP to IFRS Bank Balance Sheet as at 31 December 2004 (Excluding IAS32/39)

	31 December 2004 Reclassified UK GAAP	Share based payments (a)	Consolidation (b)	Deferred Tax (c)	31 December 2004 under IFRS (excluding IAS 32/39)
	US$M	US$M	US$M	US$M	US$M
Liabilities					
Deposits	2,022	-	290	-	2,312
Securities sold under repurchase agreements and securities lending transactions	6,224	-	-	-	6,224
Trading liabilities	38,631	-	(29)	-	38,602
Short term borrowings	23,534	-	(299)	-	23,235
Current tax liabilities	5	-	-	-	5
Long term debt	20,598	-	-	-	20,598
Other liabilities	10,705	35	-	-	10,740
Total liabilities	**101,719**	**35**	**(38)**	**-**	**101,716**
Shareholders' equity					
Called up share capital	1,657	-	-	-	1,657
Share premium account	433	-	-	-	433
Retained earnings	976	(35)	-	11	952
Total shareholders' equity	**3,066**	**(35)**	**-**	**11**	**3,042**
Total liabilities and shareholders' equity	**104,785**	**-**	**(38)**	**11**	**104,758**

Reconciliation of Consolidated Balance Sheet as at 1 January 2005 (Including IAS32/39)

	1 January 2005 under IFRS (excluding IAS 32/39)	Hedging	Derivatives and other financial instruments	Netting	Derecognition	Other	Deferred Tax	1 January 2005 under IFRS
		(d)	(e)	(f)	(g)		(c)	
	US$M	US$M	US$M	US$M	US$M	US$M	US$M	US$M
Assets								
Cash and due from banks	1,488	-	-	450	-	-	-	1,938
Interest-bearing deposits with banks	1,879	-	-	-	-	-	-	1,879
Securities purchased under resale agreements and securities borrowing transactions	9,544	-	-	2,025	56	-	-	11,625
Trading assets	73,467	211	(103)	116,400	(127)	9	-	189,857
Other financial assets	4,169	-	955	-	-	-	-	5,124
Loans and receivables	4,583	(2)	(894)	378	-	35	-	4,100
Current tax assets	89	-	-	-	-	-	-	89
Deferred tax assets	110	-	-	-	-	-	55	165
Other assets	9,547	-	-	7,072	-	(14)	-	16,605
Intangible assets	67	-	-	-	-	-	-	67
Property, plant and equipment	356	-	-	-	-	-	-	356
Total assets	**105,299**	**209**	**(42)**	**126,325**	**(71)**	**30**	**55**	**231,805**

Reconciliation of Consolidated Balance Sheet as at 1 January 2005 (Including IAS32/39)

	1 January 2005 under IFRS (excluding IAS 32/39)	Hedging	Derivatives and other financial instruments	Netting	Derecognition	Other	Deferred Tax	1 January 2005 under IFRS
		(d)	(e)	(f)	(g)		(c)	
	US$M	US$M	US$M	US$M	US$M	US$M	US$M	US$M
Liabilities								
Deposits	2,098	-	(438)	2,300	-	-	-	3,960
Securities sold under repurchase agreements and securities lending transactions	5,179	-	-	2,024	183	-	-	7,386
Trading liabilities	38,590	-	(155)	115,731	(235)	37	-	153,968
Other financial liabilities	-		20,358	-	-	-	-	20,358
Short term borrowings	23,009	-	(301)	-	-	-	-	22,708
Current tax liabilities	3	-	-	-	-	-	-	3
Long term debt	22,251	(145)	(18,976)	-	(15)	-	-	3,115
Other liabilities	10,671	-	-	6,270	-	(20)	-	16,921
Total liabilities	**101,801**	**(145)**	**488**	**126,325**	**(67)**	**17**	**-**	**228,419**
Shareholders' equity								
Called up share capital	1,657	-	-	-	-	-	-	1,657
Share premium account	433	-	-	-	-	-	-	433
Retained earnings	1,408	354	(530)	-	(4)	13	55	1,296
Total shareholders' equity	**3,498**	**354**	**(530)**	**-**	**(4)**	**13**	**55**	**3,386**
Total liabilities and shareholders' equity	**105,299**	**209**	**(42)**	**126,325**	**(71)**	**30**	**55**	**231,805**

Reconciliation of Bank Balance Sheet as at 1 January 2005 (Including IAS32/39)

	1 January 2005 under IFRS (excluding IAS 32/39)	Hedging	Derivatives and other financial instruments	Netting	Derecognition	Other	Deferred Tax	1 January 2005 under IFRS
		(d)	(e)	(f)	(g)		(c)	
	US$M	US$M	US$M	US$M	US$M	US$M	US$M	US$M
Assets								
Cash and due from banks	271	-	-	450	-	-	-	721
Interest-bearing deposits with banks	1,879	-	-	-	-	-	-	1,879
Securities purchased under resale agreements and securities borrowing transactions	9,544	-	-	2,025	56	-	-	11,625
Trading assets	73,522	211	(103)	116,400	(127)	9	-	189,912
Other financial assets	4,169	-	955	-	-	-	-	5,124
Loans and receivables	4,440	(2)	(894)	378	-	35	-	3,957
Current tax assets	89	-	-	-	-	-	-	89
Deferred tax assets	110	-	-	-	-	-	55	165
Other assets	9,589	-	-	7,072	-	(14)	-	16,647
Investments in subsidiary undertakings	722	-	-	-	-	-	-	722
Intangible assets	67	-	-	-	-	-	-	67
Property, plant and equipment	356	-	-	-	-	-	-	356
Total assets	**104,758**	**209**	**(42)**	**126,325**	**(71)**	**30**	**55**	**231,264**

Reconciliation of Bank Balance Sheet as at 1 January 2005 (Including IAS32/39)

	1 January 2005 under IFRS (excluding IAS 32/39)	Hedging	Derivatives and other financial instruments	Netting	Derecognition	Other	Deferred Tax	1 January 2005 under IFRS
		(d)	(e)	(f)	(g)		(c)	
	US$M	US$M	US$M	US$M	US$M	US$M	US$M	US$M
Liabilities								
Deposits	2,312	-	(438)	2,300	-	-	-	4,174
Securities sold under repurchase agreements and securities lending transactions	6,224	-	-	2,024	183	-	-	8,431
Trading liabilities	38,602	-	(155)	115,731	(235)	37	-	153,980
Other financial liabilities			18,705	-	-	-	-	18,705
Short term borrowings	23,235	-	(301)	-	-	-	-	22,934
Current tax liabilities	5	-	-	-	-	-	-	5
Long term debt	20,598	(145)	(17,323)	-	(15)	-	-	3,115
Other liabilities	10,740	-	-	6,270	-	(20)	-	16,990
Total liabilities	**101,716**	**(145)**	**488**	**126,325**	**(67)**	**17**	**-**	**228,334**
Shareholders' equity								
Called up share capital	1,657	-	-	-	-	-	-	1,657
Share premium account	433	-	-	-	-	-	-	433
Retained earnings	952	354	(530)	-	(4)	13	55	840
Total shareholders' equity	**3,042**	**354**	**(530)**	**-**	**(4)**	**13**	**55**	**2,930**
Total liabilities and shareholders' equity	**104,758**	**209**	**(42)**	**126,325**	**(71)**	**30**	**55**	**231,264**

Reconciliation of Consolidated Income Statement for the year ended 31 December 2004 (excluding IAS32/39)

	31 December 2004 per UK GAAP (Reclassified)	Share-based payments (a)	Consolidation (b)	Deferred Tax (c)	31 December 2004 per IFRS (excluding IAS 32/39)
	US$M	US$M	US$M	US$M	US$M
Interest income	676	-	2	-	678
Interest expense	(1,413)	-		-	(1,413)
Net interest expense	**(737)**	**-**	**2**	**-**	**(735)**
Net commissions and fees	(109)	-	-	-	(109)
Trading revenues	2,462	-	-	-	2,462
Other revenues	(172)	-	-	-	(172)
Total non interest revenues	**2,181**	**-**	**-**	**-**	**2,181**
Total operating income	**1,444**	**-**	**2**	**-**	**1,446**
Impairment for losses on loans and advances	(128)	-	-	-	(128)
Net operating income	**1,316**	**-**	**2**	**-**	**1,318**
Compensation and benefits	(515)	(24)	-	-	(539)
Other expenses	(604)	-	(2)	-	(606)
Total operating expenses	**(1,119)**	**(24)**	**(2)**	**-**	**(1,145)**
Profit before tax	**197**	**(24)**	**-**	**-**	**173**
Income tax expense	25	-	-	8	33
Profit after tax	**222**	**(24)**	**-**	**8**	**206**

Differences between UK GAAP and IFRS

The significant differences between the Group's UK accounting policies and IFRS accounting policies are summarised below.

UK GAAP	IFRS
(a) Share based payment	
Awards with graded vesting are viewed as one award and accounted for on a straight-line basis from grant date to final vesting date.	Under IFRS, the reporting entity treats each tranche as a separate grant of share awards, because each tranche has a different vesting period, unless the employee is eligible for early retirement or retirement before the end of the vesting period, in which case recognition of the expense would be accelerated over the shorter period. In practice, this results in the 'front-loading' of the expense for awards with graded vesting under IFRS compared with UK GAAP.
(b) Consolidation	
The Group financial statements consolidate the assets, liabilities and the profits and losses of subsidiaries using the acquisition method. The consolidated financial statements include entities which do not qualify as subsidiaries but which in substance give rise to benefits that are in essence no different from those that would arise were the entity a subsidiary.	The Group financial statements consolidate the assets, liabilities and the profits and losses of subsidiaries using the acquisition method. A subsidiary is an entity which the Group controls, including special purpose entities which are in substance controlled by the Group. This gives rise to additional SPEs which require consolidation.
(c) Deferred tax	
Deferred tax is recognised in respect of timing differences that have originated but not reversed at the balance sheet date. Provision is not made for specific items which are not expected to result in taxable income in the future.	Under IFRS the amount of deferred tax provided is based on the amount at which it is expected to recover or settle the carrying amount of assets and liabilities in the balance sheet, using tax rates enacted or substantively enacted at the balance sheet date.

Effects of the application of IAS 32, IAS 39 and IFRS 4

The significant differences between the Group's UK GAAP accounting policies and IFRS accounting policies applied to the treatment of financial instruments and insurance contracts, which have been incorporated into the opening balance sheet as at 1 January 2005, are as follows:

UK GAAP	IFRS
(d) Hedging	
Derivatives used for hedging purposes are measured either on an accruals or fair value basis consistent with the assets, liabilities, positions or future cash flows being hedged. Any gain or loss arising from changes in fair value of the hedging derivative is recognised in the profit and loss account at the same time as the hedged item.	IAS 39 requires all derivatives to be recorded at fair value. Provided all hedge accounting conditions are met and the hedging relationship is deemed to be effective, the change in value of the fair value hedge is recorded in income along with the change in fair value, relating to the hedged risk, of the hedged asset or liability. As a result of applying IFRS certain UK GAAP hedges do not qualify for hedging under IFRS. The group does not have any cash flow hedges or hedges of a net investment.
(e) Derivatives and Other Financial Instruments	
Financial instruments (inclusive of the derivative element) that form part of the Group's trading activities have been carried at fair value under UK GAAP using the true and fair override as permitted by the Companies Act.	Some hybrid contracts contain both a derivative and a non-derivative component. In such cases, the derivative component is termed an embedded derivative. Where the economic characteristics and risks of the embedded derivative are not closely related to those of the host contract, and the host contract itself is not carried at fair value, the embedded derivative is bifurcated and reported at fair value with gains and losses being recognised in the income statement. The Group does not recognise a dealer profit or unrealised gain or loss at the inception of a hybrid transaction under IFRS. This inception gain or loss is deferred and amortised over the duration of the underlying instrument.

Differences between UK GAAP and IFRS (continued)

<table>
<tr><th>UK GAAP</th><th>IFRS</th></tr>
<tr><td colspan="2">(e) Derivatives and Other Financial Instruments (continued)</td></tr>
<tr><td></td><td>
IAS 39 requires all financial assets to be classified at initial acquisition and subsequently measured in accordance with the classification:
<table>
<tr><td>Classification</td><td>Measurement basis</td></tr>
<tr><td>Held to maturity</td><td>Amortised cost less impairment</td></tr>
<tr><td>Non-trading loan and receivable</td><td>Amortised cost less Impairment</td></tr>
<tr><td>Available for sale</td><td>Fair value – gains and losses included in shareholders' equity until disposal or impairment. The group does not have financial assets that are available for sale.</td></tr>
<tr><td>Trading assets</td><td>Fair value – gains and losses included in the income statement</td></tr>
</table>

In addition, any financial asset may be designated as fair valued through profit and loss at initial acquisition.

The Group has elected to designate the non-trading debt and equity securities as well as certain loans as ‘At Fair Value Through Profit and Loss’ using the fair value option provided by IAS 39 in order to reflect the manner in which the items are risk managed.

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

Financial liabilities are classified as held for trading, at fair value through profit and loss, or are carried at amortised cost.
</td></tr>
</table>

Differences between UK GAAP and IFRS (continued)

UK GAAP	IFRS
(f) Netting	
Under FRS 5, items are aggregated into a single item where there is a right to insist on net settlement and the debit balance matures no later than the credit balance.	Financial assets and liabilities are offset and the net amount reported in the balance sheet if, and only if, there is currently a legally enforceable right to set off the recognised amounts and there is an intention to settle on a net basis at all times, or to realise an asset and settle the 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 on the event of default of either counterparty and effectively limit 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 IAS32 to offset transactions falling under Master Netting Agreements. The application of IFRS has resulted in certain transactions that qualified for netting under UK GAAP, being presented on a gross basis from 1 January 2005. The primary differences include derivative assets and liabilities subject to master netting agreements, repurchase contracts and cash collateral balances.
(g) Derecognition	
Under FRS 5, a liability is derecognised if an entity's obligation to transfer economic benefits is satisfied or removed.	A financial liability is extinguished when and only when the obligation is discharged, cancelled or expires. A financial asset can be removed from the balance sheet only where the derecognition conditions have been met, including a requirement to continue to recognise financial assets only to the extent of any continuing involvement in them after the transfer.

32. Accounting Policies applied to 2004 comparatives where UK GAAP measurement is used

(a) Net Trading Revenue includes profits and losses from on and off-balance sheet trading activities. As the vast majority of the Group's activities relate to trading, the resulting profits are arrived at after taking into account trading costs, risk and administration adjustments (which includes trading related expenses, sales credits paid and future administration costs), interest receivable and payable, dividend income, legal fees and commissions receivable, all of which would require separate analysis under the Companies Act 1985. Such analysis would not provide any meaningful description of the trading activities and in the opinion of the directors would be misleading. It is not practical to determine the amounts of presentation adjustments necessary, but this departure has no material effect on the profits for the year.

(b) Forward rate agreements, over-the-counter futures, interest rate and currency swaps, options, spot and forward foreign exchange contracts and other over-the-counter Off-Balance Sheet instruments are held for trading purposes and are accounted for on a trade date basis. These transactions are fair valued and the resulting profits and losses are included in Net Trading Revenue in the Profit and Loss Account. The resulting Balance Sheet amounts are included in Other Trading Balances as assets or liabilities as appropriate and are presented net by counterparty for transactions in those products where the Group has a legal right of set-off, otherwise the fair value is presented gross by contract. The determination of market value considers various factors, some of which are inherently subjective in their nature, including: closing exchange or over-the-counter market price quotations; time and volatility factors; underlying options, warrants and contractual commitments; price activity for equivalent or synthetic instruments in markets located in different time zones; counterparty credit quality; recovery rates and the potential impact on market prices of liquidating the Bank's positions in an orderly manner over a reasonable period of time under prevailing market conditions. Further, in determining the fair value of its contractual commitments, the Bank considers future administration costs. These factors are incorporated into relevant valuation models to determine the market value of the investments.

(c) Income and expense arising from deposits, customer accounts, and loans and advances held for trading purposes is computed on a net present value basis using current market rates of interest. For all other activities these instruments and associated hedges are accounted for on an accruals basis. The Companies Act 1985 and the SORP – 'Advances' require that deposits, customer accounts, and loans and advances be valued at the lower of cost and net realisable value. The directors do not consider that this would give a true and fair view as such transactions are an integral part of trading activities, which are marked to market. It is not practicable to determine the effect of this treatment.

(d) Provisions including those for Bad and Doubtful Debts are made as considered necessary having regard to specific obligations. Where the collection of interest is in significant doubt it is not recognised through the Profit and Loss account. Assets including loans and advances are written down to their estimated realisable value when there is no realistic prospect of full recovery.

(e) Debt Securities, and Equity Shares and Other Variable Yield Securities, intended to be held for use on a continuing basis in the Group's activities are classified as non-trading financial assets and are stated at cost less provision for any permanent diminution in value, after taking into account the effects of guarantees, rights of offset and similar contracts. Permanent diminution in value is considered where the securities' market value or directors' estimated value is lower than cost. Where such debt securities have been purchased at a premium or a discount, this premium or discount is amortised through the Profit and Loss Account over the period from the date of purchase to the date of maturity so as to give a constant rate of return. Any profit and loss on the realisation of these securities is recognised in the Profit and Loss Account as it arises. Other Debt Securities, and Equity Shares and Other Variable Yield Securities are held for trading purposes and are stated on a trade date basis at market value. The cost of such securities, where the market value is higher than the cost, is not disclosed, as it cannot be determined without unreasonable expense. Short positions in securities are carried at market value. Where independent prices are not available, market value may be determined by discounting the expected future cash flows using an appropriate interest rate adjusted for credit risk of the counterparty.

(f) Debt securities in issue are fair valued with the exception of Subordinated Liabilities. As a result of this policy, the financing costs associated with debt securities in issue are stated in the Profit and Loss Account partly by reference to changes in market yields and other prices. This is not in compliance with the provisions of FRS 4 'Capital Instruments', which requires the financing cost to be allocated to periods over the term of the debt at a constant rate on the carrying amount. The allocation on a time basis of finance costs would not result in a true and fair view of profits for the year, as the assets which debt securities finance are fair valued. The effect of allocating financing costs over the period of the debt cannot be determined without unreasonable expense. Subordinated liabilities are recorded at amortised cost. Associated derivative hedges are matched to these transactions and are also recorded on an accruals basis.

(g) Securities which have been sold with an agreement to repurchase at a fixed predetermined price continue to be shown on the Balance Sheet and the sale proceeds recorded in Receivables for securities sold. Securities acquired in reverse sale and repurchase transactions are not recognised in the Balance Sheet and the purchase price recorded within Receivables for Securities sold.

(h) Netting has been applied where allowed where a legal right of set off exists and a master netting agreement is in place.

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BRO2517 01.2006