

# Credit Suisse Securities (Europe) Limited Annual Report 2006



**Board of Directors**

Leonhard Fischer (Chairman and CEO)

Osama Abbasi

Gael de Boissard

Stephen Dainton

Renato Fassbind (Non Executive)

Tobias Guldemann (Non Executive)

Fawzi Kyriakos-Saad

Hamish Leslie-Melville

Marco G. Mazzucchelli

Costas P. Michaelides

Simon D. Yates

**Company Secretary**

Paul Hare

# CREDIT SUISSE SECURITIES (EUROPE) LIMITED GROUP

## DIRECTORS' REPORT FOR THE YEAR ENDED 31 DECEMBER 2006

The directors present their Report and the Financial Statements for the year ended 31 December 2006.

### **Business Review**

#### *Profile*

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

Credit Suisse Securities (Europe) Ltd (the 'Company') is an indirect wholly owned subsidiary of CSG. It is regulated in the United Kingdom by the Financial Services Authority and is a listed money market institution under the Financial Services and Markets Act, 2000.

Its principal activities are the arranging of finance for clients in the international capital markets, the provision of financial advisory services and acting as dealer in securities, derivatives and foreign exchange on a principal and agency basis.

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

#### *Principal Product Areas*

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

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

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

#### *Performance*

The net operating income for the Group for 2006 was US\$3,279M (2005: US\$2,305M). The profit after tax, attributable to shareholders, for the year was US\$158M compared with a loss of US\$496M in 2005.

As at 31 December 2006, the Group had total assets of US\$314,423M (2005: US\$251,464M) and total equity of US\$1,929M (2005: US\$520M). As a regulated entity, the Company is required to ensure that it is adequately capitalised at all times by maintaining an excess of Financial Resources over its Financial Resource Requirements, as defined by the regulations. As at 31 December 2006, the Company's capital ratio was in excess of this minimum threshold.

# CREDIT SUISSE SECURITIES (EUROPE) LIMITED GROUP

## DIRECTORS' REPORT FOR THE YEAR ENDED 31 DECEMBER 2006

An analysis of the total operating income by division is given below:

	2006	2005
	US\$M	US\$M
Fixed Income Division	902	809
Equity Division	1,855	1,259
Investment Banking Division	281	209
Other	241	28
	<u>3,279</u>	<u>2,305</u>

The Fixed Income Division's net operating income increased by 11% on the previous year. Significant contributions were generated by Emerging Market trading, Interest Rate trading, the Leveraged Finance business and the Structured Products business.

The Equity Division's net operating income increased by 47% on the prior year. A substantial portion of this movement related to commission income from the Cash Equity business. Further increases in net operating income were generated by Equity Proprietary trading, Equity Convertibles trading, and the Prime Services business.

The Investment Banking division's net operating income increased by 34% on the prior year. This was generated by the M&A and Strategic Advisory business.

'Other' reflects Private Banking and other operating income that is not specifically allocated to any business division. Items in this category are particularly sensitive to trading volumes and available capital, both of which increased during 2006.

The Group's cost base for the year was US\$3,129M (2005:US\$2,940M). The movement was mainly due to increased bonus costs and higher salary costs as a consequence of headcount increases.

### **Subordinated loan capital**

During the year the Group borrowed US\$618M of additional subordinated loan capital from Credit Suisse First Boston Finance BV (2005: borrowed US\$150M).

### **Capital Contribution**

During the year the Group received US\$1,248M additional capital contributions from Credit Suisse Investment Holdings (UK) (2005: US\$400M).

### **Dividends**

No dividends were paid or are proposed for 2006 (2005: US\$nil).

### **Risk Management**

The Group's financial risk management objectives and policies and the exposure of the Group to price risk, credit risk, liquidity risk and cash flow risk are outlined in note 32.

# CREDIT SUISSE SECURITIES (EUROPE) LIMITED GROUP

## DIRECTORS' REPORT FOR THE YEAR ENDED 31 DECEMBER 2006

### 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 2005 and up to the date of this report are as follows:

#### Appointments

Simon D. Yates	12 December 2006
Osama Abbasi	5 March 2007
Leonhard Fischer	5 March 2007
Fawzi Kyriakos-Saad	13 March 2007

#### Resignations

David R. Mathers	12 December 2006
Jeremy J. Bennett	5 March 2007
Michael G. Philipp	5 March 2007

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 Group or had any disclosable interest in shares of Credit Suisse group companies.

Directors of the Group benefited from qualifying third party indemnity provisions in place during the financial year and at the date of this report.

### Disclosure of Information to Auditors

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

### Employee Involvement and Employment of Disabled Persons

The Group has a forward strategy which supports its desire to become an employer of choice for all including the disabled. The Group gives full and fair consideration to disabled persons in employment applications, training and career development including those who become disabled during their period of employment.

### Donations

During the year the Group made US\$590,703 (2005: US\$282,177) of charitable donations. There were no political donations made by the Group during the year (2005: US\$nil).

### Auditors

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

### International Financial Reporting Standards

The Group's 2006 annual accounts have been prepared in accordance with International Financial Reporting Standards ("IFRS") as adopted for use in the EU.

# CREDIT SUISSE SECURITIES (EUROPE) LIMITED GROUP

## DIRECTORS' REPORT FOR THE YEAR ENDED 31 DECEMBER 2006

### Subsequent Events

Since the end of 2006 the Group has borrowed additional subordinated loan capital of US\$450M from Credit Suisse First Boston Finance BV.

By Order of the Board

A handwritten signature in black ink, appearing to read 'Paul Hare', written in a cursive style.

Paul Hare  
Company Secretary

One Cabot Square  
London E14 4QJ  
13 March 2007

# CREDIT SUISSE SECURITIES (EUROPE) LIMITED GROUP

## STATEMENT OF DIRECTORS' RESPONSIBILITIES

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

Company law requires the directors to prepare Group and parent Company financial statements for each financial year. Under that law they have elected to prepare both the Group and the parent Company financial statements in accordance with IFRS as adopted by the EU and applicable laws.

The Group and parent Company financial statements are required by law and IFRS as adopted by the EU to present fairly the financial position of the Group and the parent Company 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 Group and parent Company financial statements, the directors are required to:

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

The directors are responsible for keeping proper accounting records that disclose with reasonable accuracy at any time the financial position of the parent Company and enable them to ensure that its financial statements comply with the Companies Act 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 Company'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 SECURITIES (EUROPE) LIMITED GROUP

We have audited the Group and parent Company financial statements (the 'financial statements') of Credit Suisse Securities (Europe) Ltd for the year ended 31 December 2006 which comprise the Group Income Statement, the Group and Parent Company Balance Sheets, the Group and Parent Company Cash Flow Statements, the Group and Parent Company Statements of Changes in 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 Company's members, as a body, in accordance with the Companies Act 1985. Our audit work has been undertaken so that we might state to the Company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Company and the Company's members as a body, for our audit work, for this report, or for the opinions we have formed.

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

The directors' responsibilities for preparing the Directors' Report and the financial statements in accordance with applicable law and International Financial Reporting Standards (IFRS) 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. We also report to you whether in our opinion the information given in the Directors' Report is consistent with the financial statements.

In addition we report to you if, in our opinion, the Company 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 Directors' Report and consider the implications for our report if we become aware of any apparent misstatements within it.

## **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 and judgments made by the directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the Group's and Company'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 Group financial statements give a true and fair view, in accordance with IFRS as adopted by the EU, of the state of the Group's affairs as at 31 December 2006 and of its profit for the year then ended;
- the parent Company financial statements give a true and fair view, in accordance with IFRS as adopted by the EU as applied in accordance with the provisions of the Companies Act 1985, of the state of the parent Company's affairs as at 31 December 2006;
- the financial statements have been properly prepared in accordance with the Companies Act 1985; and
- the information given in the Directors' Report is consistent with the financial statements.

*KPMG Audit Plc*

## **KPMG Audit Plc**

Chartered Accountants

Registered Auditor

London

13 March 2007



# CREDIT SUISSE SECURITIES (EUROPE) LIMITED GROUP

## CONSOLIDATED INCOME STATEMENT FOR THE YEAR ENDED 31 DECEMBER 2006

	Note	Group 2006 US\$M	Group 2005 US\$M
Interest income	4	6,876	4,293
Interest expense	4	(8,107)	(5,196)
<b>Net interest expense</b>	<b>4</b>	<b>(1,231)</b>	<b>(903)</b>
Net commissions and fees	5	1,963	1,372
Net trading revenues	6	2,652	1,890
Net other charges	5	(105)	(54)
<b>Net non-interest revenues</b>		<b>4,510</b>	<b>3,208</b>
<b>Net operating income</b>		<b>3,279</b>	<b>2,305</b>
Compensation and benefits	5	(2,464)	(2,275)
Other expenses	5	(665)	(665)
<b>Total operating expenses</b>		<b>(3,129)</b>	<b>(2,940)</b>
<b>Profit/(Loss) before tax</b>		<b>150</b>	<b>(635)</b>
Income tax credit	7	8	139
<b>Profit/(Loss) after tax</b>		<b>158</b>	<b>(496)</b>
<b>Profit attributable to:</b>			
Equity holders of the parent		158	(496)
		<b>158</b>	<b>(496)</b>

All profits and losses for both 2006 and 2005 are from Continuing Operations.

The notes on pages 17 to 77 form an integral part of these financial statements.

# CREDIT SUISSE SECURITIES (EUROPE) LIMITED GROUP

## CONSOLIDATED BALANCE SHEET AS AT 31 DECEMBER 2006

	Note	Group 2006 US\$M	Group 2005 US\$M
<b>Assets</b>			
Cash and cash equivalents		4,737	3,897
Interest-bearing deposits with banks		20	655
Securities purchased under resale agreements and securities borrowing transactions	8	194,146	155,997
Trading assets	6	71,334	59,362
Financial assets designated at fair value through profit or loss	6	2,057	790
Loans	9	-	15
Other investments	10	9	9
Deferred tax assets	11	505	398
Other assets	12	41,518	30,271
Goodwill	15	7	6
Property, plant and equipment	16	90	64
<b>Total assets</b>		<b>314,423</b>	<b>251,464</b>
<b>Liabilities</b>			
Deposits	17	1,939	1,042
Securities sold under repurchase agreements and securities lending transactions	8	150,554	122,559
Trading liabilities	6	52,131	46,329
Financial liabilities designated at fair value through profit or loss	6	4,760	284
Short term borrowings	18	66,868	55,393
Current tax liabilities		250	154
Long term debt	19	2,292	1,674
Deferred tax liabilities	11	9	11
Other liabilities	20	33,627	23,430
Provisions	21	64	68
<b>Total liabilities</b>		<b>312,494</b>	<b>250,944</b>
<b>Shareholders' equity</b>			
Called-up share capital	22	4,523	3,275
Retained earnings		(2,560)	(2,718)
Other reserves		(34)	(37)
<b>Total shareholders' equity</b>		<b>1,929</b>	<b>520</b>
<b>Total liabilities and shareholders' equity</b>		<b>314,423</b>	<b>251,464</b>

The notes on pages 17 to 77 form an integral part of these financial statements.

Approved by the Board of Directors on 13 March 2007 and signed on its behalf by



Costas P. Michaelides

# CREDIT SUISSE SECURITIES (EUROPE) LIMITED GROUP

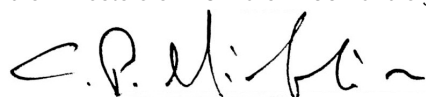
## COMPANY BALANCE SHEET AS AT 31 DECEMBER 2006

	Note	Company 2006 US\$M	Company 2005 US\$M
<b>Assets</b>			
Cash and cash equivalents		4,727	3,897
Interest-bearing deposits with banks		719	655
Securities purchased under resale agreements and securities borrowing transactions	8	194,146	155,997
Trading assets	6	71,334	59,362
Financial assets designated at fair value through profit or loss	6	1,898	790
Loans	9	-	15
Other investments	10	9	9
Deferred tax assets	11	505	398
Other assets	12	40,824	30,271
Investment in subsidiary undertakings	14	155	-
Goodwill	15	7	6
Property, plant and equipment	16	90	64
<b>Total assets</b>		<b>314,414</b>	<b>251,464</b>
<b>Liabilities</b>			
Deposits	17	1,939	1,042
Securities sold under repurchase agreements and securities lending transactions	8	150,554	122,559
Trading liabilities	6	52,131	46,329
Financial liabilities designated at fair value through profit or loss	6	4,754	284
Short term borrowings	18	66,868	55,393
Current tax liabilities		250	154
Long term debt	19	2,292	1,674
Deferred tax liabilities	11	9	11
Other liabilities	20	33,627	23,430
Provisions	21	64	68
<b>Total liabilities</b>		<b>312,488</b>	<b>250,944</b>
<b>Shareholders' equity</b>			
Called-up share capital	22	4,523	3,275
Retained earnings		(2,563)	(2,718)
Other reserves		(34)	(37)
<b>Total shareholders' equity</b>		<b>1,926</b>	<b>520</b>
<b>Total liabilities and shareholders' equity</b>		<b>314,414</b>	<b>251,464</b>

The notes on pages 17 to 77 form an integral part of these financial statements.

For the year ended 2006, US\$155M of profit attributable to shareholders (2005: US\$496M) has been dealt with in the accounts of the Company.

Approved by the Board of Directors on 13 March 2007 and signed on its behalf by



Costas P. Michaelides

# CREDIT SUISSE SECURITIES (EUROPE) LIMITED GROUP

## CONSOLIDATED STATEMENT OF CHANGES IN EQUITY FOR THE YEAR ENDED 31 DECEMBER 2006

	Group					Total shareholders' equity
	Share Capital	Retained Earnings	Cash flow hedging reserve	Other Reserves Translation reserve	Total other reserves	
	US\$M	US\$M	US\$M	US\$M	US\$M	US\$M
<b>Balance as at 01 January 2006</b>	3,275	(2,718)	-	(37)	(37)	520
Foreign exchange translation differences	-	-	-	30	30	30
Net gain on hedges of net investments in foreign entities taken to equity	-	-	-	(27)	(27)	(27)
Net gain on cash flow hedging instruments transferred to income statement	-	-	-	-	-	-
Net profit for the year	-	158	-	-	-	158
<b>Total recognised income and expense for the year</b>	-	158	-	3	3	161
Capital contribution	1,248	-	-	-	-	1,248
<b>Balance as at 31 December 2006</b>	4,523	(2,560)	-	(34)	(34)	1,929

The notes on pages 17 to 77 form an integral part of these financial statements.

# CREDIT SUISSE SECURITIES (EUROPE) LIMITED GROUP

## COMPANY STATEMENT OF CHANGES IN EQUITY FOR THE YEAR ENDED 31 DECEMBER 2006

	Company					Total shareholders' equity
	Share Capital	Retained Earnings	Cash flow hedging reserve	Other Reserves Translation reserve	Total other reserves	
<b>Balance as at 01 January 2006</b>	3,275	(2,718)	-	(37)	(37)	520
Foreign exchange translation differences	-	-	-	30	30	30
Net gain on hedges of net investments in foreign entities taken to equity	-	-	-	(27)	(27)	(27)
Net gain on cash flow hedging instruments transferred to income statement	-	-	-	-	-	-
Net profit for the year	-	155	-	-	-	155
<b>Total recognised income and expense for the year</b>	-	155	-	3	3	158
Capital contribution	1,248	-	-	-	-	1,248
<b>Balance as at 31 December 2006</b>	4,523	(2,563)	-	(34)	(34)	1,926

The notes on pages 17 to 77 form an integral part of these financial statements.

# CREDIT SUISSE SECURITIES (EUROPE) LIMITED GROUP

## CONSOLIDATED GROUP AND COMPANY STATEMENT OF CHANGES IN EQUITY FOR THE YEAR ENDED 31 DECEMBER 2005

	Group and Company					Total shareholders' equity	
	Share Capital	Retained Earnings	Other Reserves				US\$M
			Cash flow hedging reserve	Translation reserve	Total other reserves		
<b>Balance as at 01 January 2005</b>	2,875	(2,222)	3	(30)	(27)	626	
Foreign exchange translation differences	-	-	-	5	5	5	
Net gain on hedges of net investments in foreign entities taken to equity	-	-	-	(12)	(12)	(12)	
Net gain on cash flow hedging instruments transferred to income statement	-	-	(3)	-	(3)	(3)	
Net loss for the year	-	(496)	-	-	-	(496)	
<b>Total recognised income and expense for the year</b>	-	(496)	(3)	(7)	(10)	(506)	
Capital contribution	400	-	-	-	-	400	
<b>Balance as at 31 December 2005</b>	3,275	(2,718)	-	(37)	(37)	520	

The notes on pages 17 to 77 form an integral part of these financial statements.

# CREDIT SUISSE SECURITIES (EUROPE) LIMITED GROUP

## CONSOLIDATED CASH FLOW STATEMENT FOR THE YEAR ENDED 31 DECEMBER 2006

	Group 2006 US\$M	Group 2005 US\$M
<b>Operating activities of operations</b>		
Profit/(Loss) before tax for the year	150	(635)
<b>Adjustments to reconcile net income to net cash provided by/(used in) operating activities</b>		
Non-cash items included in loss before tax and other adjustments:		
Impairment, depreciation and disposals of property, plant and equipment	11	8
Interest accrued on long term debt	111	68
Foreign exchange (gains)/losses	(1)	(4)
Net (increase)/decrease in operating assets:		
Interest bearing deposits with banks	635	(355)
Securities purchased under resale agreements and securities borrowing transactions	(38,149)	(18,893)
Trading assets	(11,972)	(8,535)
Financial assets designated at fair value through profit or loss	(1,267)	(790)
Loans	15	(15)
Other assets	(11,247)	(8,109)
Net increase/(decrease) in operating liabilities:		
Securities sold under resale agreements and securities lending transactions	27,995	19,962
Deposits	897	780
Short term borrowings	11,475	(4,967)
Trading liabilities	5,802	15,893
Financial liabilities designated at fair value through profit or loss	4,476	284
Other liabilities	10,192	5,036
Provisions	(4)	20
<b>Cash used in operations</b>	<b>(881)</b>	<b>(252)</b>
Income tax (paid)/received	(3)	124
<b>Net cash flow used in operating activities</b>	<b>(884)</b>	<b>(128)</b>
<b>Investing activities</b>		
Purchase of other investments	-	(1)
Capital expenditure for property, plant and equipment	(36)	(5)
<b>Net cash flow used in investing activities</b>	<b>(36)</b>	<b>(6)</b>
<b>Financing activities</b>		
Increases in long term debt	618	150
Increase in capital contribution	1,248	400
Interest paid on long term debt	(106)	(62)
<b>Net cash flow from financing activities</b>	<b>1,760</b>	<b>488</b>
<b>Net increase in cash and cash equivalents</b>	<b>840</b>	<b>354</b>
<b>Cash and cash equivalents at beginning of the year</b>	<b>3,897</b>	<b>3,543</b>
<b>Cash and cash equivalents at end of the year</b>	<b>4,737</b>	<b>3,897</b>

The notes on pages 17 to 77 form an integral part of these financial statements.

# CREDIT SUISSE SECURITIES (EUROPE) LIMITED GROUP

## COMPANY CASH FLOW STATEMENT FOR THE YEAR ENDED 31 DECEMBER 2006

	Company 2006 US\$M	Company 2005 US\$M
<b>Operating activities of operations</b>		
Profit/(Loss) before tax for the year	147	(635)
<b>Adjustments to reconcile net income to net cash provided by/(used in) operating activities</b>		
Non-cash items included in loss before tax and other adjustments:		
Impairment, depreciation and disposals of property, plant and equipment	11	8
Interest accrued on long term debt	111	68
Foreign exchange (gains)/losses	(1)	(4)
Net (increase)/decrease in operating assets:		
Interest bearing deposits with banks	(64)	(355)
Securities purchased under resale agreements and securities borrowing transactions	(38,149)	(18,893)
Trading assets	(11,972)	(8,535)
Financial assets designated at fair value through profit or loss	(1,108)	(790)
Loans	15	(15)
Other assets	(10,553)	(8,109)
Net increase/(decrease) in operating liabilities:		
Securities sold under resale agreements and securities lending transactions	27,995	19,962
Deposits	897	780
Short term borrowings	11,475	(4,967)
Trading liabilities	5,802	15,893
Financial liabilities designated at fair value through profit or loss	4,470	284
Other liabilities	10,192	5,036
Provisions	(4)	20
<b>Cash used in operations</b>	<b>(736)</b>	<b>(252)</b>
Income tax (paid)/received	(3)	124
<b>Net cash flow used in operating activities</b>	<b>(739)</b>	<b>(128)</b>
<b>Investing activities</b>		
Purchase of other investments	-	(1)
Investment in subsidiary undertaking	(155)	-
Capital expenditure for property, plant and equipment	(36)	(5)
<b>Net cash flow used in investing activities</b>	<b>(191)</b>	<b>(6)</b>
<b>Financing activities</b>		
Increases in long term debt	618	150
Increase in capital contribution	1,248	400
Interest paid on long term debt	(106)	(62)
<b>Net cash flow from financing activities</b>	<b>1,760</b>	<b>488</b>
<b>Net increase in cash and cash equivalents</b>	<b>830</b>	<b>354</b>
<b>Cash and cash equivalents at beginning of the year</b>	<b>3,897</b>	<b>3,543</b>
<b>Cash and cash equivalents at end of the year</b>	<b>4,727</b>	<b>3,897</b>

The notes on pages 17 to 77 form an integral part of these financial statements.



# CREDIT SUISSE SECURITIES (EUROPE) LIMITED GROUP

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2006

### 1. General

Credit Suisse Securities (Europe) Limited is a Group domiciled in the United Kingdom. The address of the Company's registered office is One Cabot Square, London, E14 4QJ.

### 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 Group is required to prepare Consolidated Financial Statements in accordance with International Financial Reporting Standards as adopted by the EU ("adopted IFRS"), including the standards (International Accounting 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. The financial statements also comply with the relevant provisions of Part VII of the Companies Act 1985 (as amended by the Companies Act 1985 (International Accounting Standards and other Accounting Amendments) Regulations 2004).

Both the parent Company and the Group financial statements have been prepared and approved by the directors in accordance with adopted IFRS. On publishing the parent Company financial statements here together with the Group financial statements, the Company is taking advantage of the exemption in s230 of the Companies Act 1985 not to present its individual income statement and related notes that form a part of these approved financial statements.

#### b) Basis of preparation

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

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

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

The Group adopted amendments to IAS 39 and IFRS 4 in relation to financial guarantee contracts which apply to periods commencing on or after 1 January 2006. The amendments do not have any significant impact on the financial statements for the period commencing 1 January 2006.

The Group has elected not to early adopt the provisions of IFRS 7 'Financial Instruments – Disclosures'. The new standard is a pure disclosure standard and does not change the recognition and measurement of financial instruments. Accordingly, it will have no effect on profit for the period and net assets of the Group. The new standard requires entities to make enhanced quantitative and qualitative risk disclosures for all major categories of financial instruments in their financial statements.

# CREDIT SUISSE SECURITIES (EUROPE) LIMITED GROUP

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2006

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

The Group has also elected not to early adopt, and is currently evaluating the potential impacts of, the following IFRICs which are issued but not yet effective:

- IFRIC 7 'Applying the Restatement Approach under IAS 29 "Financial Reporting in Hyperinflationary Economies" (effective for annual periods beginning on or after 1 March 2006);
- IFRIC 8 'Scope of IFRS 2' (effective for annual periods beginning on or after 1 May 2006);
- IFRIC 9 'Reassessment of Embedded Derivatives' (effective for annual periods beginning on or after 1 June 2006);
- IFRIC 10 'Interim Financial Reporting and Impairment' (effective for annual periods beginning on or after 1 November 2006); and
- IFRIC 11 'IFRS 2 - Group and Treasury Share Transactions' (effective for annual periods beginning on or after 1 March 2007).

The accounting policies set out below have been applied consistently to all periods presented in these financial statements.

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

The Group's Financial Statements include the results and positions of the Company and its consolidated subsidiaries including special purpose entities. The Group's Financial Statements include the Income Statements, Balance Sheets, Cash Flow Statements, Statements of Changes in Equity and the related notes.

A subsidiary is an entity which the Group controls. Control is achieved where the Group 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 Financial Statements from the date that control commences until the date that control ceases. Investments in subsidiaries are accounted for at cost in accordance with IAS 27 in the Company standalone accounts.

The Company also consolidates SPEs when the substance of the relationship between the Company and the SPE indicates that the SPE is controlled by the Company 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.

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

Transactions denominated in currencies other than the functional currency (US\$) of the Company are translated at the foreign exchange rate ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies at the balance sheet date are translated to US\$ at the foreign exchange rate ruling at that date. Foreign exchange differences arising from translation are recognised in the income statement. Non-monetary assets and liabilities denominated in foreign currencies at balance sheet date are not revalued for movements in foreign exchange rates.

The assets and liabilities of branch operations with functional currencies other than US\$ are translated into US\$ at foreign exchange rates ruling at the balance sheet date. The revenues and expenses of these operations are translated to US\$ at the average foreign exchange rate for the period. The resulting translation differences are recognised directly in a "Translation reserve". On disposal, these translation differences are reclassified to the income statement as part of gain or loss on disposal.

#### **e) Cash and cash equivalents**

For the purpose of preparation and presentation of the balance sheet and 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 cash management purposes.

# CREDIT SUISSE SECURITIES (EUROPE) LIMITED GROUP

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2006

### 2. Significant Accounting Policies (continued)

#### f) Securities purchased or sold under resale or repurchase agreements

Securities purchased under agreements to resell ('reverse repurchase agreements') and securities sold under agreements to repurchase ('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 reverse repurchase agreements. In repurchase agreements, the cash received, including accrued interest, is recognised on the balance sheet as repurchase agreements on a settlement date basis.

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.

Forward starting repurchase agreements are reported off balance sheet between trade date and settlement date. These are recorded at the amount of the future initial cash exchange. After the initial exchange has taken place the reporting for the transactions follows the policy above.

Interest earned on reverse repurchase agreements and interest incurred on repurchase agreements is recognised on an effective yield basis and reported as interest income or interest expense for agreements that are not classified as fair value through profit and loss.

#### g) Securities borrowing and lending

Securities borrowing and securities lending transactions are generally entered into on a collateralised basis. The transfer of the securities themselves is not reflected on the 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.

#### h) 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 intention to sell the assets or purchase 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.

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 the valuation of derivatives, as discussed in Note 2 i). Where the input parameters cannot be validated using observable market data, adjustments are established for unrealised gains evident at the inception of the contracts so that no gain or loss is recorded at inception. Such adjustments are amortised to income over the life of the instrument or released into income when observable market data becomes available.

# CREDIT SUISSE SECURITIES (EUROPE) LIMITED GROUP

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2006

### 2. Significant Accounting Policies (continued)

#### i) Derivative financial instruments and hedging

All freestanding derivative contracts are carried at fair value on 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 2j 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 on the 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 "Net trading revenues". Derivative contracts designated and qualifying as cash flow hedges or net investment hedges are reported as "Other assets" or "Other liabilities" and hedge accounting is applied.

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, adjustments are established for unrealised gains evident at the inception of the contracts so that no gain is recorded at inception. Such adjustments 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.

# CREDIT SUISSE SECURITIES (EUROPE) LIMITED GROUP

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2006

### 2. Significant Accounting Policies (continued)

#### *Cash flow hedge accounting*

For hedges of the variability of cash flows from forecasted transactions and floating rate assets or liabilities, the effective portion of the change in the fair value of a designated derivative is recorded in the statement of changes in equity through "Cash flow hedging reserve". These amounts are reclassified into the income statement when the variable cash flow from the hedged item impacts earnings (e.g. when periodic settlements on a variable rate asset or liability are recorded in the income statement or when the hedged item is disposed of). Hedge ineffectiveness is recorded in "Net trading revenues".

When hedge accounting is discontinued on a cash flow hedge, the net gain or loss will remain in equity and be reclassified into the income statement in the same period or periods during which the formerly hedged transaction is reported in the income statement.

When the Group discontinues hedge accounting because it is no longer probable that a forecasted transaction will occur within the required time period, the derivative will continue to be carried on the balance sheet at its fair value, and gains and losses that were previously recorded in equity will be recognised immediately in the income statement. When the Group discontinues hedge accounting due to any other reason but it is still probable that the forecasted transaction will occur within the original required time period, the derivative will continue to be recorded at its fair value with all subsequent changes in value recorded directly in the income statement. Any gains or losses recorded in equity prior to the date hedge accounting is no longer applied will be reclassified to net income when the forecasted transaction takes place.

#### *Hedge of a net investment*

For hedges of a net investment in a foreign operation, the change in the fair value of the hedging derivative is recorded in the statement of changes in equity as "Translation reserve" to the extent that the hedge is effective. The change in fair value representing hedge ineffectiveness is transferred to the income statement through "Net trading revenues". The Group uses the forward method of determining effectiveness for net investment hedges, which results in the time value portion of a foreign currency forward being reported in equity, to the extent the hedge is effective.

#### **j) 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 an inconsistency in measurement or recognition (sometimes referred to as 'an accounting mismatch') that would otherwise arise from measuring assets or liabilities or recognising the gains and losses on them on different bases. This election is used for instruments that would otherwise be accounted for under an accrual method of accounting where their economic risks are hedged with derivative instruments that require fair value accounting. This election eliminates or significantly reduces the measurement mismatch between accrual accounting and fair value accounting;
- (ii) a group of financial assets, financial liabilities or both is managed and its performance is evaluated on a fair value basis, in accordance with a documented risk management or investment strategy, and information about the Group is provided internally on that basis to the entity's key management personnel. This election is used for instruments purchased or issued by business units that manage their performance on a fair value basis. For all instruments elected under this criterion, the business maintains a documented strategy that states that these instruments are risk managed on a fair value basis. Additionally, management rely upon the fair value of these instruments in evaluating the performance of the business.

# CREDIT SUISSE SECURITIES (EUROPE) LIMITED GROUP

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2006

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

The Fair Value Option has been applied to certain debt instruments, equity securities and other financial instruments and the related assets and liabilities are presented in a separate line on the face of the balance sheet. Once designated this election is irrevocable. All fair value changes related to financial instruments held at fair value through profit and loss are recognised in "Net Trading Revenues".

#### **k) 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 the 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 funded by another entity and the instrument is exchanged for a new instrument with that same entity that 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.

#### **l) Loans and receivables**

Loans and receivables are recognised when cash is advanced to borrowers. They are initially recorded at fair value, which is the cash given to originate the loan, and are subsequently 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.

#### **m) 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 is legally protected by Master Netting Agreements. Such agreements ensure that the net position is settled in the event of default of either counterparty and effectively 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 IAS 32 to offset transactions falling under Master Netting Agreements.

#### **n) Dividend policy**

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

# CREDIT SUISSE SECURITIES (EUROPE) LIMITED GROUP

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2006

### 2. Significant Accounting Policies (continued)

#### o) Income taxes

Income tax on the profit or loss for the year comprises current and deferred tax. 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 substantially 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: pension expense, 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 or loss for the periods presented is included in Note 7.

#### p) Goodwill

Goodwill represents the excess of the cost of acquisition over the fair value of the net assets acquired at the date of acquisition.

Goodwill is stated at cost less impairment losses.

#### q) Property, plant and equipment

All 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 measured reliably. 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	2-10 years
Office equipment	5 years

# CREDIT SUISSE SECURITIES (EUROPE) LIMITED GROUP

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2006

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

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

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

#### **r) Retirement benefit costs**

The Group has both defined contribution and defined benefit pension plans. The defined benefit plans are group schemes, in which the Company is the sponsoring entity.

Obligations for contributions to defined contribution pension plans are recognised as an expense in the income statement as incurred.

In accordance with the provisions of IAS 19 for defined benefit plans that share risks between various entities under common control, the Company, as the sponsoring entity, accounts for the plan as a defined benefit plan, which includes recording in its financial statements the entire net defined benefit cost to itself and all of its affiliates, who are also covered by the plan.

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

#### **s) Long term debt**

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

#### **t) 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.

#### **u) Provisions**

Provisions are recognised (assuming that a reliable estimate can be made) if they are obligations and it is probable that an outflow of resources embodying economic benefits will be required to settle the obligations.



# CREDIT SUISSE SECURITIES (EUROPE) LIMITED GROUP

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2006

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

#### **v) Share-based payments**

The Company 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 Company grants shares in its ultimate parent company, CSG, to certain employees. The Company purchases CSG shares from Credit Suisse Equity Based Compensation AG, another Credit Suisse group 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 Company's obligation to settle the liability by the delivery of an asset that is not an equity instrument of the Company. 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.

#### **w) Interest income and expense**

Interest income and expense includes interest income and expense on the Group's financial instruments owned and financial instruments sold not yet purchased, short-term and long-term borrowings, reverse repurchase and repurchase agreements and securities borrowed and securities lending transactions. Interest income and expense does not include interest flows on the Group's trading derivatives (except for hedging relationships), trading instruments and financial instruments classified as at fair value through profit and loss. These are recorded using the effective interest rates of the financial assets or financial liabilities to which they relate in "Net Trading Revenues".

#### **x) 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 entity recognises the related revenue.

#### **y) 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.

# CREDIT SUISSE SECURITIES (EUROPE) LIMITED GROUP

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2006

### 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. 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 values the Group reports in the 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 related unrealised and realised 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 at the inception of a derivative or non-derivative transaction unless the valuation underlying the unrealised gain 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 on and after 1 January 2004.

#### **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 Group's financial statements, management makes estimates regarding the outcome of legal, regulatory and arbitration matters and takes a charge to income when losses with respect to such matters are probable and can be reasonably estimated. Charges, other than those taken periodically for costs of defence, are not established for matters when losses cannot be reasonably estimated. Estimates, by their nature, are based on judgement and currently available information and involve a variety of factors, including but not limited to the type and nature of the litigation, claim or proceeding, the progress of the matter, the advice of legal counsel and other advisers, the Group's defences and its experience in similar cases or proceedings. 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.

# CREDIT SUISSE SECURITIES (EUROPE) LIMITED GROUP

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2006

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

#### **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 the Company, as sponsor of the defined benefit plan, has made in arriving at the valuations of the various components of the defined benefit plan.

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

The Company is required to estimate the expected return on plan assets, which is then used to compute pension cost recorded in the income statement. 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. In calculating pension expense and in determining the expected rate of return, the Company uses the calculated value of assets.

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, the Company takes into consideration the relationship between the corporate bonds and the timing and amount of the future cash outflows of its benefit payments.

#### **Allowances and provisions for loan losses**

As a normal part of the Group's business, it 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 it considers 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 incurred 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 evaluate properly the various indicators of financial condition of a counterparty and likelihood of repayment.

# CREDIT SUISSE SECURITIES (EUROPE) LIMITED GROUP

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED  
31 DECEMBER 2006

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

### **Income taxes**

#### **Deferred tax valuation**

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

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

#### **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 tax authority audits or when an event occurs requiring 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.

# CREDIT SUISSE SECURITIES (EUROPE) LIMITED GROUP

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2006

### 4. Interest Income and Interest Expense

	Group 2006 US\$M	Group 2005 US\$M
Interest income on cash, cash equivalents and loans	358	299
Securities purchased under resale agreements and securities borrowing transactions	6,434	3,959
Other interest income on cash collateral	84	35
<b>Total interest income</b>	<b>6,876</b>	<b>4,293</b>
Interest expense on deposits	(43)	(21)
Securities sold under repurchase agreements and securities lending transactions	(5,065)	(3,218)
Interest expense on short-term borrowings	(2,708)	(1,804)
Interest expense on long-term debt	(111)	(68)
Other interest expense on cash collateral	(180)	(85)
<b>Total interest expense</b>	<b>(8,107)</b>	<b>(5,196)</b>
<b>Net interest expense</b>	<b>(1,231)</b>	<b>(903)</b>

Interest expense includes US\$2M in 2006 relating to instruments designated at fair value (2005: US\$2M income).

### 5. Non-Interest Revenues and Total Operating Expenses

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

	Group 2006 US\$M	Group 2005 US\$M
Commissions from lending business:		
Investment and portfolio management fees	1	3
Commissions and fees from fiduciary activities:		
Underwriting fees	473	302
Brokerage fees	1,214	835
Merger and acquisition fees	364	256
Fees for other customer services	41	15
<b>Commission and fee income</b>	<b>2,093</b>	<b>1,411</b>
Commissions from lending business:		
Investment and portfolio management fees	(2)	(1)
Commissions and fees from fiduciary activities:		
Brokerage fees	(121)	(35)
Fees for other customer services	(7)	(3)
<b>Commission and fee expense</b>	<b>(130)</b>	<b>(39)</b>
<b>Net Commissions and fees</b>	<b>1,963</b>	<b>1,372</b>

Other charges of US\$(105)M (2005: US\$(54)M) principally relate to amounts charged to the Group from other Credit Suisse group companies.

# CREDIT SUISSE SECURITIES (EUROPE) LIMITED GROUP

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2006

### 5. Non-Interest Revenues and Total Operating Expenses (continued)

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

	Group 2006 US\$M	Group 2005 US\$M
Salaries and bonuses	2,104	1,936
Social security	258	231
Pension cost	68	58
Other	34	50
<b>Compensation and benefits</b>	<b>2,464</b>	<b>2,275</b>

Included in the above table are amounts relating to directors' remuneration. Further details are disclosed in Note 25(d).

The following table sets forth the details of other expenses:

	Group 2006 US\$M	Group 2005 US\$M
Occupancy expenses	168	151
IT and machinery expenses	140	132
Depreciation expenses	10	8
Provisions and losses	(1)	44
Commission expenses	391	306
Travel and entertainment	92	82
Audit fees of the Company	2	2
Professional services	232	214
Other	152	70
Expenses receivable from other Credit Suisse group companies	(521)	(344)
<b>Other expenses</b>	<b>665</b>	<b>665</b>

The Group incurs expenses on behalf of other Credit Suisse group companies under common control. These are subsequently recharged to the relevant companies through 'Expenses receivable from other Credit Suisse group companies'.

# CREDIT SUISSE SECURITIES (EUROPE) LIMITED GROUP

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2006

### 6. Trading Activities

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

	Group 2006 US\$M	Group 2005 US\$M
Interest rate products	386	307
Equity/index-related products	874	600
Foreign exchange products	212	91
Other	-	(2)
<b>Trading revenues</b>	<b>1,472</b>	<b>996</b>
Dividend income on trading assets	3,867	2,547
Dividend expense on trading liabilities	(2,687)	(1,653)
<b>Net trading dividend income</b>	<b>1,180</b>	<b>894</b>
<b>Net trading revenues</b>	<b>2,652</b>	<b>1,890</b>

For the year ended 31 December 2006, the impact to the profit or loss relating to financial instruments designated as held at fair value through profit and loss was a loss of US\$9M (2005: US\$2M loss). Included in this total is US\$nil (2005: US\$nil) of fair value changes of financial liabilities due to changes in the Group's own creditworthiness.

### Financial instruments at fair value through profit or loss (including trading)

	Group and Company 2006 US\$M	Group and Company 2005 US\$M
<b>Trading assets</b>		
Debt instruments		
Treasury bills	206	614
Government debt instruments	17,832	10,995
Corporate debt instruments	13,344	13,552
Equity instruments	27,131	23,155
Positive replacement values of derivative trading positions	12,821	11,046
<b>Total trading assets</b>	<b>71,334</b>	<b>59,362</b>

Trading assets and other financial assets include US\$39,889M (2005: US\$30,366M) which are encumbered.

	Group 2006 US\$M	Group 2005 US\$M
<b>Financial assets designated at fair value through profit or loss</b>		
Debt instruments		
Structured resale agreements	1,618	790
Life insurance contracts	61	-
Life annuity contracts	378	-
<b>Total financial assets designated at fair value through profit or loss</b>	<b>2,057</b>	<b>790</b>

# CREDIT SUISSE SECURITIES (EUROPE) LIMITED GROUP

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2006

### 6. Trading Activities (continued)

	Company 2006 US\$M	Company 2005 US\$M
<b>Financial assets designated at fair value through profit or loss</b>		
Debt instruments		
Structured resale agreements	1,618	790
Life insurance contracts	8	-
Life annuity contracts	272	-
<b>Total financial assets designated at fair value through profit or loss</b>	<b>1,898</b>	<b>790</b>

For financial assets designated as at fair value, the maximum fair value exposure to credit risk as at 31 December 2006 is US\$2,057M (Group) and US\$1,898M (Company) (2005: US\$790M (Group and Company)). US\$1,618M (Group and Company) of this value is fully collateralised (2005: US\$790M (Group and Company)). This includes not only changes in fair values but also movement as a result of newly designated financial instruments, disposals and maturities during the year. The movement in fair values of the financial assets designated as at fair value during the period ended 31 December 2006 was a US\$5M (Group and Company) loss in the income statement (2005: US\$5M loss (Group and Company)). The changes in fair value are mainly due to movements in market risk.

	Group and Company 2006 US\$M	Group and Company 2005 US\$M
<b>Trading liabilities</b>		
Debt instruments	(26,856)	(24,019)
Equity instruments	(12,150)	(8,547)
Negative replacement values of derivative trading positions	(13,125)	(13,763)
<b>Total trading liabilities</b>	<b>(52,131)</b>	<b>(46,329)</b>

	Group 2006 US\$M	Group 2005 US\$M
<b>Financial liabilities designated at fair value through profit or loss</b>		
Debt instruments		
Structured repurchase agreements	(4,754)	(284)
Other	(6)	-
<b>Total financial liabilities designated at fair value through profit or loss</b>	<b>(4,760)</b>	<b>(284)</b>

	Company 2006 US\$M	Company 2005 US\$M
<b>Financial liabilities designated at fair value through profit or loss</b>		
Debt instruments		
Structured repurchase agreements	(4,754)	(284)
<b>Total financial liabilities designated at fair value through profit or loss</b>	<b>(4,754)</b>	<b>(284)</b>



# CREDIT SUISSE SECURITIES (EUROPE) LIMITED GROUP

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2006

### 6. Trading Activities (continued)

For financial liabilities designated as at fair value, the maximum fair value exposure as at 31 December 2006 is US\$4,754M (2005: US\$284M), which is fully collateralised. This includes not only changes in fair values but also movements as a result of newly designated financial instruments, disposals and maturities during the year. The movement in fair values of the financial liabilities designated as at fair value during the period ended 31 December 2006 was a US\$4M loss in the income statement (2005: US\$3M gain). The changes in fair value are mainly due to movements in market risk.

The mark to market valuation was calculated using a yield curve which reflected the Company's credit rating in the market and the effect of collateral. This was achieved by adjusting the relevant yield curve at each point in the curve to provide an own credit adjusted valuation.

The financial instruments designated at fair value through the profit and loss were elected because they are managed on a fair value basis.

### 7. Income Tax Expense

	Group 2006 US\$M	Group 2005 US\$M
<b>Current tax</b>		
Current tax on profits of the period	(156)	(14)
Adjustments in respect of previous periods	57	4
<b>Total current tax</b>	<b>(99)</b>	<b>(10)</b>
<b>Deferred tax</b>		
Origination and reversal of temporary differences	133	139
Adjustments in respect of previous periods	(26)	10
<b>Total deferred tax</b>	<b>107</b>	<b>149</b>
<b>Income tax credit</b>	<b>8</b>	<b>139</b>

Current tax of US\$nil (2005: US\$nil) and deferred tax of US\$nil (2005: US\$nil) were credited directly to equity. The total deferred tax credited to equity in 2005 of US\$71M related to amounts on transition from UK GAAP to IFRS. US\$70M arose on non IAS 32/39 items and US\$1M arose on IAS 32/39 items.

# CREDIT SUISSE SECURITIES (EUROPE) LIMITED GROUP

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2006

### 7. Income Tax Expense (continued)

Further information about deferred income tax is presented in Note 11. The following table is a reconciliation of taxes computed at the UK statutory rate of 30% (2005: 30%) to the actual income tax expense:

	Group 2006 US\$M	Group 2005 US\$M
Income tax credit computed at the statutory tax rate	(45)	191
Increase/(decrease) in income tax credit resulting from:		
Other non-deductible expenses	12	(59)
Unrelievable foreign tax	(12)	(7)
Adjustments to current tax in respect of previous periods	57	4
Adjustments to deferred tax in respect of previous periods	(26)	10
Tax effect of utilising tax losses on which no deferred tax was previously recognised	22	-
<b>Income tax credit</b>	<b>8</b>	<b>139</b>

### 8. Securities purchased and sold under resale or repurchase agreements and securities borrowing transactions

The following table summarises the securities borrowed or purchased under agreements to resell, at their respective carrying values:

	Group and Company 2006 US\$M	Group and Company 2005 US\$M
Securities purchased under resale agreements and securities borrowing transactions	112,321	93,675
Deposits paid for securities borrowed	81,825	62,322
<b>Total</b>	<b>194,146</b>	<b>155,997</b>
<b>Of which due in more than 1 year</b>	<b>-</b>	<b>-</b>

The maximum month-end amount of securities purchased under agreements to resell was US\$213,901M and US\$174,338M in 2006 and 2005 respectively. The average amount of securities purchased under agreements to resell during the year was US\$189,123M and US\$157,064M in 2006 and 2005 respectively.

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

	Group and Company 2006 US\$M	Group and Company 2005 US\$M
Securities sold under repurchase agreements and securities lending transactions	112,302	103,843
Deposits received for securities lent	38,252	18,716
<b>Total</b>	<b>150,554</b>	<b>122,559</b>
<b>Of which due in more than 1 year</b>	<b>-</b>	<b>-</b>

# CREDIT SUISSE SECURITIES (EUROPE) LIMITED GROUP

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2006

### 8. Securities purchased and sold under resale agreements and securities borrowing transactions (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 Group monitors the fair value of securities received or delivered. For securities purchased under resale agreements, the Group requests additional securities or the return of a portion of the cash disbursed when appropriate in response to a decline in the market value of the securities received. Similarly, the return of excess securities or additional cash is requested when appropriate in response to an increase in the market value of securities sold under repurchase agreements.

In the event of counterparty default, the financing agreement provides the Group with the right to liquidate the collateral held. In the Group's normal course of business, a substantial portion of the collateral received that may be sold or re-pledged has been sold or re-pledged as at 31 December 2006 and 2005 respectively. Refer to Note 31.

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 collateral with the lender. For securities lending transactions, the Group receives cash or securities collateral in an amount generally in excess of the market value of securities lent. The Group monitors the market value of securities borrowed and securities lent on a daily basis and obtains additional collateral 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 Company's continuing involvement:

Nature of Asset	Group and Company 2006		Group and Company 2005	
	Carrying amount of asset	Associated Liability	Carrying amount of asset	Associated Liability
	US\$M	US\$M	US\$M	US\$M
Securities lending agreements	12,077	(12,077)	18,624	(16,217)

The assets in the table above 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 Company 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.

The majority of the 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 Company 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 Company continues to recognise the transferred asset in its entirety or to the extent of its continuing involvement.

# CREDIT SUISSE SECURITIES (EUROPE) LIMITED GROUP

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2006

### 9. Loans

For both the Group and Company, loans receivable from foreign, commercial corporations were US\$nil (2005: US\$15M due in more than 1 year). There were no allowances made for loan losses in 2006 (2005: US\$nil).

### 10. Other Investments

The following table summarises details of other investments:

	Group and Company 2006 US\$M	Group and Company 2005 US\$M
Non-marketable equity securities	9	9
<b>Total other investments</b>	<b>9</b>	<b>9</b>

This item includes investments in non-marketable exchanges for which the Group has neither significant influence nor control over the investee. The fair value of these investments is disclosed in Note 30.

### 11. Deferred Taxes

Deferred taxes are calculated on all temporary differences under the liability method using an expected tax rate of 30% (2005: 30%).

The movement on the deferred income tax account is as follows:

	Group and Company 2006 US\$M	Group and Company 2005 US\$M
At 1 January	387	168
Arising on non IAS 32/39 items	-	70
Restated balance under IFRS (excluding IAS 32/39)	387	238
Arising on IAS 32/39 items - credited to equity during the period	-	1
Restated opening balance under IFRS (including IAS 32/39)	387	239
Credit to income for the year	107	149
Exchange differences	2	(1)
<b>At 31 December</b>	<b>496</b>	<b>387</b>

See Note 7 for further information on deferred tax charged directly to equity.

# CREDIT SUISSE SECURITIES (EUROPE) LIMITED GROUP

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2006

### 11. Deferred Taxes (continued)

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

#### Deferred tax assets

	Group and Company 2006 US\$M	Group and Company 2005 US\$M
Pensions and other post retirement benefits	50	57
Derivative financial instruments	-	1
Share-based compensation	412	304
Other provisions	13	9
Other short term temporary differences	30	27
<b>At end of year</b>	<b>505</b>	<b>398</b>

#### Deferred tax liabilities

	Group and Company 2006 US\$M	Group and Company 2005 US\$M
Accelerated tax depreciation	(9)	(11)
<b>At end of year</b>	<b>(9)</b>	<b>(11)</b>

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

	Group and Company 2006 US\$M	Group and Company 2005 US\$M
Pensions and other post-retirement benefits	6	9
Decelerated tax depreciation	(3)	-
Share-based compensation	(108)	(136)
Other provisions	(4)	(3)
Other short term temporary differences	2	(19)
<b>At end of year</b>	<b>(107)</b>	<b>(149)</b>

Deferred tax assets are recognised on deductible temporary differences, tax loss carry and tax credits only to the extent that realisation of the related tax benefit is probable. The Group has no tax losses (2005: US\$86M) to carry forward against future taxable income.

Deferred tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets against current tax liabilities and when the deferred taxes relates to the same fiscal authority.

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

# CREDIT SUISSE SECURITIES (EUROPE) LIMITED GROUP

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2006

### 12. Other Assets

	Group 2006 US\$M	Group 2005 US\$M
Positive replacement values of derivative instruments (held for hedging purposes)	5	1
Brokerage receivables (Note 13)	35,615	26,979
Interest and fees receivable	2,123	1,343
OTC cash collateral	2,822	1,805
Prepaid expenses	46	36
Other	907	107
<b>Total</b>	<b>41,518</b>	<b>30,271</b>

	Company 2006 US\$M	Company 2005 US\$M
Positive replacement values of derivative instruments (held for hedging purposes)	5	1
Brokerage receivables (Note 13)	35,615	26,979
Interest and fees receivable	2,128	1,343
OTC cash collateral	2,822	1,805
Prepaid expenses	46	36
Other	208	107
<b>Total</b>	<b>40,824</b>	<b>30,271</b>

All Other Assets, other than 'Positive replacement values of derivative instruments', are due within 1 year.

### 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.

	Group and Company 2006 US\$M	Group and Company 2005 US\$M
Due from customers	18,682	13,476
Due from banks, brokers and dealers	16,933	13,503
<b>Total brokerage receivables</b>	<b>35,615</b>	<b>26,979</b>

# CREDIT SUISSE SECURITIES (EUROPE) LIMITED GROUP

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2006

### 13. Brokerage Receivables and Brokerage Payables (continued)

	Group and Company 2006 US\$M	Group and Company 2005 US\$M
Due to customers	(10,295)	(6,601)
Due to banks, brokers and dealers	(13,946)	(10,248)
<b>Total brokerage payables</b>	<b>(24,241)</b>	<b>(16,849)</b>

### 14. Investment in subsidiary undertakings

	Company 2006 US\$M	Company 2005 US\$M
Beginning of the year	-	-
Investment in subsidiary undertakings	155	-
<b>End of the year</b>	<b>155</b>	<b>-</b>

#### Significant subsidiaries

31 December 2006 % of equity held	Company name	Country of incorporation	Currency
100	Credit Suisse First Boston Nominees Limited	UK	US\$
100	Credit Suisse First Boston Trustees Limited	UK	US\$
100	Credit Suisse First Boston Private Funds Group Limited	UK	US\$
100	Sail Master Trust I	Ireland	US\$
100	Sail Master Trust II	Ireland	US\$

The business of all the subsidiaries is complementary to the business of the Group. Sail Master Trust I and Sail Master Trust II were acquired during 2006.

Copies of accounts of Credit Suisse Investments (UK) and of the ultimate holding company, CSG, which are those of the smallest and largest groups in which the results of the Company are consolidated, are available to the public and may be obtained from The Registrar of Companies, Companies House, Crown Way, Maindy, Cardiff and Credit Suisse Group, Paradeplatz, P.O. Box 1, 8070 Zurich, respectively.

### 15. Goodwill

	Group and Company 2006 US\$M	Group and Company 2005 US\$M
Opening book amount	6	7
Exchange differences	1	(1)
<b>Closing net book amount</b>	<b>7</b>	<b>6</b>

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

# CREDIT SUISSE SECURITIES (EUROPE) LIMITED GROUP

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2006

### 16. Property, Plant and Equipment

	Group and Company 2006				
	Long Leasehold Land and Buildings US\$M	Leasehold Improvements US\$M	Computer Equipment US\$M	Office Equipment US\$M	Total US\$M
<b>Cost:</b>					
Cost as at 1 January 2006	52	46	10	6	114
Additions	-	29	1	6	36
Disposals	-	(7)	(2)	(1)	(10)
Other movements	-	(2)	3	-	1
Cost as at 31 December 2006	52	66	12	11	141
<b>Depreciation:</b>					
Depreciation as at 1 January 2006	7	30	9	4	50
Charge for the period	1	7	1	1	10
Disposals	-	(6)	(2)	(1)	(9)
Other movements	-	(2)	2	-	-
Depreciation as at 31 December 2006	8	29	10	4	51
<b>Net book value as at 31 December 2006</b>	44	37	2	7	90
<b>Net book value as at 31 December 2005</b>	45	16	1	2	64

Leasehold improvements relate to improvements to land and buildings occupied by the Group and other Credit Suisse group companies.

No interest has been capitalised within Property, Plant and Equipment (2005:US\$nil).



# CREDIT SUISSE SECURITIES (EUROPE) LIMITED GROUP

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2006

### 16. Property, Plant and Equipment (continued)

	Group and Company					Total US\$M
	2005					
	Long Leasehold Land and Buildings US\$M	Leasehold Improvements US\$M	Computer Equipment US\$M	Office Equipment US\$M		
<b>Cost:</b>						
Cost as at 1 January 2005	52	46	9	8		115
Additions	-	3	1	1		5
Disposals	-	-	-	-		-
Other movements	-	(3)	-	(3)		(6)
Cost as at 31 December 2005	52	46	10	6		114
<b>Depreciation:</b>						
Depreciation as at 1 January 2005	6	24	8	5		43
Charge for the period	1	5	1	1		8
Disposals	-	-	-	-		-
Other movements	-	1	-	(2)		(1)
Depreciation as at 31 December 2005	7	30	9	4		50
<b>Net book value as at 31 December 2005</b>	45	16	1	2		64
<b>Net book value as at 31 December 2004</b>	46	22	1	3		72

### 17. Deposits

	Group and Company 2006 US\$M	Group and Company 2005 US\$M
Non-interest bearing demand deposits		
from banks	414	13
from customers	-	1
Interest-bearing demand deposits		
from banks	202	47
from customers	147	141
Time deposits		
from banks	1,176	840
<b>Total deposits</b>	<b>1,939</b>	<b>1,042</b>

# CREDIT SUISSE SECURITIES (EUROPE) LIMITED GROUP

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2006

### 17. Deposits (continued)

As at 31 December 2006, the remaining maturities for time deposits were as follows:

	Group and Company 2006 US\$M	Group and Company 2005 US\$M
Up to 1 month	843	741
From 1 month to 3 months	-	54
From 3 months to 1 year	318	-
From 1 year to 5 years	15	45
<b>Total time deposits</b>	<b>1,176</b>	<b>840</b>

Deposits for the Group and Company include US\$702M (2005:US\$253M) due to related parties under common control.

### 18. Short Term Borrowings

	Group and Company 2006 US\$M	Group and Company 2005 US\$M
Interest-bearing brokerage borrowings	66,868	55,393
<b>Total short term borrowings</b>	<b>66,868</b>	<b>55,393</b>

As at 31 December 2006, the remaining maturities for short term borrowings of the Group and Company were as follows:

	Group and Company 2006 US\$M	Group and Company 2005 US\$M
Up to 1 month	60,314	49,927
From 1 month to 3 months	6,554	5,464
From 3 months to 1 year	-	2
<b>Total short term borrowings deposits</b>	<b>66,868</b>	<b>55,393</b>

Short term borrowings for the Group and Company include US\$66,858M (2005:US\$55,391M) due to related parties under common control.

The short term borrowings reported in the balance sheet of the consolidated SPEs (see note 29) were received from another Group company and therefore eliminate on consolidation.

# CREDIT SUISSE SECURITIES (EUROPE) LIMITED GROUP

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2006

### 19. Long Term Debt

	Group and Company 2006 US\$M	Group and Company 2005 US\$M
Subordinated debt	2,292	1,674
<b>Total long term debt</b>	<b>2,292</b>	<b>1,674</b>

At 31 December 2006 subordinated debt comprises an amount of US\$2,292M advanced by Credit Suisse First Boston Finance BV, a fellow company under common control, under an agreement dated 22 March 1996, as amended by deed of variation dated 2 July 2001. During the year the Company borrowed a further US\$618M additional subordinated loan capital from Credit Suisse First Boston Finance BV (2005: US\$150M).

Under the terms of the facility the Company may repay, in whole or in part, any amounts outstanding upon giving prior written notice to the lender and FSA. The earliest date at which the lender can request repayment is April 2021.

Interest is payable up to LIBOR plus 85 basis points per annum or at such other rate as may be agreed between the parties. Under the facility, the loan and any interest outstanding thereon is subordinated in right of repayment to all other indebtedness and liabilities of the Company.

### 20. Other Liabilities

	Group and Company 2006 US\$M	Group and Company 2005 US\$M
Negative replacement values of derivative instruments (held for hedging purposes)	1	23
Brokerage payables (Note 13)	24,241	16,849
Interest and fees payable	2,172	1,652
OTC cash collateral	4,791	3,266
Compensation accruals	2,178	1,475
Other	244	165
<b>Total Other Liabilities</b>	<b>33,627</b>	<b>23,430</b>

All Other Liabilities, other than 'Negative replacement values of derivative instruments', are due within 1 year.

# CREDIT SUISSE SECURITIES (EUROPE) LIMITED GROUP

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2006

### 21. Provisions

	Group and Company			
	Property US\$M	Litigation US\$M	Total 2006 US\$M	Total 2005 US\$M
Balance at beginning of year	19	49	<b>68</b>	<b>48</b>
Increase in provisions	5	5	<b>10</b>	<b>55</b>
Released or utilised during the year	(4)	(12)	<b>(16)</b>	<b>(33)</b>
Currency translation difference	2	-	<b>2</b>	<b>(2)</b>
<b>Balance at the end of the year</b>	<b>22</b>	<b>42</b>	<b>64</b>	<b>68</b>
<b>Of which due in more than 1 year</b>	<b>8</b>	<b>-</b>	<b>8</b>	<b>9</b>

A significant portion of the property provision relates to reinstatement obligations that will be incurred when the leases expire. Approximately US\$5M of this is expected to be utilised during 2007. A further US\$10M relates to a provision for expected losses on rental costs that will not be recovered from the sub-lessors. US\$6.2m of this is expected to be utilised over the next 3 years.

US\$38M of the litigation provision relates to the estimated liability exposure and legal fees for a case that the Company is defending. It is expected this matter will be settled in 2007. The legal fees have been incurred and will be settled in 2007.

### 22. Called-up Share Capital

#### Authorised:

	Group and Company 2006 US\$M	Group and Company 2005 US\$M
<b>Equity</b>		
50,000,000 ordinary voting shares of US\$1 each	50	50
<b>Total authorised share capital</b>	<b>50</b>	<b>50</b>

#### Allotted, called up and fully paid:

	Group and Company 2006 US\$M	Group and Company 2005 US\$M
27,300,000 ordinary voting shares of US\$1 each	27	27
Capital contribution	4,496	3,248
<b>Total called-up share capital</b>	<b>4,523</b>	<b>3,275</b>

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

# CREDIT SUISSE SECURITIES (EUROPE) LIMITED GROUP

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2006

### 23. Stock awards

The Company's share-based payments, which are an integral part of the Company's annual remuneration process, are an important part of the overall compensation package for key employees and senior executives and are designed to promote employee retention and align employee and shareholder interests. The majority of share-based payments are granted as part of the annual performance incentive bonus granted to employees subsequent to the financial year to which the performance incentive bonus relates. Share-based payments are generally subject to restrictive features such as vesting, forfeiture and blocking rules.

The Company also awarded Performance Incentive Plan units ('PIP's) as part of its long-term incentive program in 2006 and 2005, based upon individuals' performance in 2005 and 2004, respectively. Each PIP unit entitles the holder to receive Credit Suisse Group shares at the end of the five-year vesting period based upon the achievement of defined financial targets and performance relative to a group of peers. Vesting is subject to continued employment with the Group, restrictive covenants and cancellation provisions. Compensation expense for PIPs is adjusted annually based on management's estimate of earnings performance over the five year vesting period.

In January 2007, as part of the 2006 remuneration process, the Group has streamlined its share-based payment programs and will issue one common instrument, Incentive Share Units (ISUs). Previously granted awards will continue to settle under their original terms and are not affected by the ISU award. The ISU award combines features of traditional share grants with a leverage component linked to the development of the Credit Suisse Group share price.

Total compensation expense for stock awards payments recognised during 2006 and 2005 was US\$722M and US\$761M respectively. The total stock award liability recorded as at 31 December 2006 was US\$1,321M (2005: US\$807M), of which the fair value of the liability consists solely of intrinsic value. The fair value used to calculate the stock award liability was the closing Credit Suisse Group share price as at 31 December 2006 CHF85.45 (2005: CHF67). The average weighted fair value of awards granted in 2006 was CHF73.55 (2005: CHF49.08). The intrinsic value of vested share based awards outstanding as at year end was US\$88M (2005: US\$100M).

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

	Group and Company 2006 millions	Group and Company 2005 millions
<b>Stock excluding PIP units</b>		
As at 1 January	8.03	8.48
Granted	4.78	4.77
Delivered	(2.79)	(4.52)
Forfeited	(0.63)	(0.70)
<b>As at 31 December</b>	<b>9.39</b>	<b>8.03</b>
<b>PIP Units</b>		
As at 1 January	2.08	-
Granted	0.86	2.17
Delivered	-	-
Forfeited	(0.05)	(0.09)
<b>As at 31 December</b>	<b>2.89</b>	<b>2.08</b>

# CREDIT SUISSE SECURITIES (EUROPE) LIMITED GROUP

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2006

### 23. Stock awards (continued)

#### 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 Registered Shares on date of grant or the average share price of Credit Suisse Group Registered Shares for one month prior to and including the date of grant. Options vest in three equal instalments commencing from the first anniversary of the grant date and are exercisable as they vest; the options have a contractual option term of ten years. The Company 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:

	Group and Company		Group and Company	
	2006		2005	
	In units	Weighted average exercise price	In units	Weighted average exercise price
At 1 January	81,272	CHF 47.98	20,000	CHF 47.75
Granted	16,367	CHF 73.06	62,274	CHF 48.05
Exercised	-	CHF 0.00	-	CHF 0.00
Forfeited	-	CHF 0.00	(1,002)	CHF 47.75
<b>At 31 December</b>	<b>97,639</b>	<b>CHF 52.18</b>	<b>81,272</b>	<b>CHF 47.98</b>

No share options were exercised during 2006. The intrinsic value of vested options outstanding as at year end was US\$1.1M (2005: US\$0.1M).

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

	Exercise Price	Group and Company 2006	Group and Company 2005
Jan 2004 Options	CHF47.75	18,998	18,998
Jan 2005 Options	CHF48.05	62,274	62,274
Jan 2006 Options	CHF73.06	16,367	-
		<b>97,639</b>	<b>81,272</b>

The fair value of options granted during the period determined using the Black-Scholes valuation model was US\$9 (2005: US\$8). The significant inputs into the model were share prices of US\$54.98 (2005: US\$39.82) at the grant date, exercise price shown above, standard deviation of expected share price returns of 24.8% (2005: 29%), option life disclosed above, and annual risk free interest rate of 2.4% (2005: 1.9%). The volatility measured at the standard deviation of expected share price returns is based on statistical analysis of daily share prices over the last three years. The 2005 comparative relating to the number of shares outstanding and the Black-Scholes valuation model has been modified to be consistent with the 2006 presentation methodology.

# CREDIT SUISSE SECURITIES (EUROPE) LIMITED GROUP

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2006

### 24. Retirement Benefit Obligations

The Company has established a number of pension schemes covering substantially all employees. Some of the pension schemes are final salary defined benefit plans and are funded. The assets of the funded plans are held independently of the Company's assets in separate trustee administered funds. A full actuarial valuation is completed by independent actuaries, for these schemes, every three years using the projected unit credit method and updated for each balance sheet date. The Company does not contribute to any other post-retirement defined benefit plans.

The following disclosures contain the balances for the entire defined benefit plan sponsored by the Company, of which the Company is one of many participants, who are all related parties under common control. The Company accounts for the entire plan using defined benefit accounting and its share of the total plan is 75.78%.

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

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

	Defined benefit pension plans	
	Group and Company 2006 US\$M	Group and Company 2005 US\$M
Service costs on benefit obligation	6	8
Interest costs on benefit obligation	54	51
Expected return on plan assets	(53)	(51)
Amortisation of:		
prior service cost	-	-
unrecognised losses	4	1
<b>Net periodic pension costs</b>	<b>11</b>	<b>9</b>
Settlement gains	-	-
Curtailment losses/(gains)	-	-
<b>Total pension costs</b>	<b>11</b>	<b>9</b>

# CREDIT SUISSE SECURITIES (EUROPE) LIMITED GROUP

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2006

### 24. Retirement Benefit Obligations (continued)

The following table shows the changes in the projected benefit obligation and the fair value of plan assets during 2006 and 2005, and the amounts included in the balance sheet for the Company's defined benefit pension and other post-retirement defined benefit plans as at 31 December 2006 and 2005 respectively:

	Defined benefit pension plans	
	Group and Company 2006 US\$M	Group and Company 2005 US\$M
Projected benefit obligation – beginning of the measurement period	1,072	985
Benefit obligation of countries added in current year	-	5
Plan participant contributions	-	-
Service cost	6	8
Interest cost	54	51
Plan amendments	-	-
Settlements	-	-
Curtailements	-	-
Actuarial losses	116	143
Benefit payments	(8)	(8)
Exchange rate losses/(gains)	155	(112)
<b>Projected benefit obligation – end of the measurement period</b>	<b>1,395</b>	<b>1,072</b>
Fair value of plan assets – beginning of the measurement period	804	755
Assets of countries added in current year	-	3
Expected return on plan assets	53	51
Actuarial gains/losses on plan assets	30	80
Actual return on plan assets	83	131
Contributions	9	8
Plan participant contributions	-	-
Benefit payments	(8)	(8)
Exchange rate gains/(losses)	115	(85)
<b>Fair value of plan assets – end of the measurement period</b>	<b>1,003</b>	<b>804</b>
<b>Total amount recognised 31 December</b>		
Funded status of the plan	(392)	(268)
Unrecognised		
Net transition asset	-	-
Prior service cost	-	-
Net actuarial losses	252	167
Exchange rate gains/(losses)	15	(8)
<b>Net amount recognised 31 December</b>	<b>(125)</b>	<b>(109)</b>

In 2007 the Company expects to contribute US\$8.9M to the UK defined benefit pension plans. The Company is currently in discussions with the Pension Fund Trustees in respect of the valuation and funding of the UK defined benefit pension plan. These discussions are expected to be finalised by 31 March 2007 in line with the requirements set out by the UK Pensions Regulator. The Company has proposed to fund a significant majority of the fund deficit by 2009, including a payment of GBP140M (US\$273M) during 2007.



# CREDIT SUISSE SECURITIES (EUROPE) LIMITED GROUP

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2006

### 24. Retirement Benefit Obligations (continued)

At 31 December 2006 and 2005 the pension fund plan assets hold no material amounts of Credit Suisse Group debt and equity securities.

Movement in the liability recognised in the balance sheet:

	Group and Company 2006 US\$M	Group and Company 2005 US\$M
At 1 January	(109)	(120)
Exchange difference	(14)	12
Total expenses (as above)	(11)	(9)
Contributions paid	9	8
<b>At 31 December</b>	<b>(125)</b>	<b>(109)</b>

### Assumptions

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

31 December in %	Group and Company 2006	Group and Company 2005
<b>Benefit obligations</b>		
Discount rate	5.1	4.7
Salary increases	4.6	4.3
<b>Net periodic pension cost</b>		
Discount rate	4.7	5.5
Salary increases	4.3	4.3
Expected long-term rate of return on plan assets	6.7	7.3

The assumptions for life expectancy in the 2006 benefit obligation calculations are based on the mortality tables PXA92C2006 for current pensioners and PXA92C2026 for non-pensioners with the "medium cohort" adjustment applied. The assumptions are that a member who retires at age 60 will live on average for a further 27 years after retirement if they are male and for a further 30 years after retirement if they are female.

# CREDIT SUISSE SECURITIES (EUROPE) LIMITED GROUP

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2006

### 24. Retirement Benefit Obligations (continued)

#### Plan assets and investment strategy

The following table sets forth the weighted average asset allocation of the Group's international defined benefit pension plan assets as at the measurement date:

	Group and Company 2006 %	Group and Company 2005 %
31 December		
Equity securities	69.3	67.7
Debt securities	17.0	18.5
Alternative investments	13.7	13.3
Liquidity	-	0.5
<b>Total</b>	<b>100.0</b>	<b>100.0</b>

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

The defined benefit plan weighted average target asset allocation as at the measurement date was:

	Group and Company 2006 %	Group and Company 2005 %
31 December		
Equity securities	68.7	65.7
Debt securities	18.0	19.6
Alternative investments	13.3	14.7
<b>Total</b>	<b>100.0</b>	<b>100.0</b>

# CREDIT SUISSE SECURITIES (EUROPE) LIMITED GROUP

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2006

### 24. Retirement Benefit Obligations (continued)

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

31 December	Group and Company		
	2006	2005	2004
Projected benefit obligation	1,395	1,072	985
Fair value of plan assets	1,003	804	755
Funded status, surplus/(deficit)	(392)	(268)	(230)
Experience (gains)/losses on plan liabilities <sup>1)</sup>	48	(49)	15
Experience gains/(losses) on plan assets	30	80	24

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

### Defined Contribution Pension Plans

The Company also contributes to various defined contribution pensions primarily in the United Kingdom. The contributions in these plans during 2006 and 2005 were US\$59M and US\$49M respectively.

### 25. Related Party Transactions

The Company is wholly owned by Credit Suisse Investment Holdings (UK), incorporated in the UK. The ultimate parent of the Company is Credit Suisse Group, which is incorporated in Switzerland.

The Group is involved in significant financing and other transactions, and has significant related party balances, with subsidiaries and affiliates of Credit Suisse group. The Group generally enters into these transactions in the ordinary course of business and these transactions are on market terms that could be obtained from unrelated parties.

# CREDIT SUISSE SECURITIES (EUROPE) LIMITED GROUP

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED  
31 DECEMBER 2006

## 25. Related Party Transactions (continued)

### a) Related party assets and liabilities

	Group 2006 US\$M	Group 2005 US\$M
	Fellow Credit Suisse group Companies	Fellow Credit Suisse group Companies
<b>Assets</b>		
Cash and cash equivalents	807	1,913
Interest-bearing deposits with banks	-	652
Securities purchased under resale agreements and securities borrowing transactions	76,343	55,986
Trading assets	4,445	5,122
Other assets	7,326	6,075
<b>Total assets</b>	<b>88,921</b>	<b>69,748</b>
<b>Liabilities</b>		
Deposits	702	253
Securities sold under repurchase agreements and securities lending transactions	35,139	26,996
Trading liabilities	4,296	5,399
Short term borrowings	66,858	55,391
Long term debt	2,292	1,674
Other liabilities	3,674	3,151
<b>Total liabilities</b>	<b>112,961</b>	<b>92,864</b>

# CREDIT SUISSE SECURITIES (EUROPE) LIMITED GROUP

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED  
31 DECEMBER 2006

## 25. Related Party Transactions (continued)

	Company 2006 US\$M Subsidiary Companies	Company 2006 US\$M Fellow Credit Suisse group Companies	Company 2006 US\$M Total	Company 2005 US\$M Fellow Credit Suisse group Companies
<b>Assets</b>				
Cash and cash equivalents	-	807	807	1,913
Interest-bearing deposits with banks	699	-	699	652
Securities purchased under resale agreements and securities borrowing	-	76,343	76,343	55,986
Trading assets	-	4,445	4,445	5,122
Other assets	5	7,326	7,331	6,075
<b>Total assets</b>	<b>704</b>	<b>88,921</b>	<b>89,625</b>	<b>69,748</b>
<b>Liabilities</b>				
Deposits	-	702	702	253
Securities sold under repurchase agreements and securities lending transactions	-	35,139	35,139	26,996
Trading liabilities	-	4,296	4,296	5,399
Short term borrowings	-	66,858	66,858	55,391
Long term debt	-	2,292	2,292	1,674
Other liabilities	-	3,674	3,674	3,151
<b>Total liabilities</b>	<b>-</b>	<b>112,961</b>	<b>112,961</b>	<b>92,864</b>

## b) Related party off balance sheet transactions

	Group and Company 2006 US\$M Fellow Credit Suisse group Companies	Group and Company 2005 US\$M Fellow Credit Suisse group Companies
<b>Off balance sheet items</b>		
Guarantees	15,200	3,487
Derivatives notional amounts	311,237	185,288
Receivables for securities purchased under resale agreements and securities borrowing transactions	45,666	34,718
Obligations to return securities sold under resale agreements and securities lending transactions	(82,499)	(66,559)
<b>Total</b>	<b>289,604</b>	<b>156,934</b>

# CREDIT SUISSE SECURITIES (EUROPE) LIMITED GROUP

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2006

### 25. Related Party Transactions (continued)

#### c) Related party revenues and expenses

	Group and Company 2006 US\$M	Group and Company 2005 US\$M
	Fellow Credit Suisse group	Fellow Credit Suisse group
Interest income	2,512	1,562
Interest expense	(4,102)	(2,569)
<b>Net interest income</b>	<b>(1,590)</b>	<b>(1,007)</b>
Net commissions and fees	79	132
Net trading revenues	-	-
Other charges	(105)	(56)
<b>Total non-interest revenues</b>	<b>(26)</b>	<b>76</b>
<b>Total operating expenses</b>	<b>(624)</b>	<b>(626)</b>

#### d) Remuneration

The Credit Suisse Group International Share Plan provides for the grant of equity based awards to employees based on CSG shares pursuant to which employees of the Group may be granted share or other equity-based awards as compensation for services performed. See Note 23 for further information on the Company's share-based compensation.

#### Remuneration of Directors

	Group and Company 2006 US\$M	Group and Company 2005 US\$M
Emoluments	11	8
Share based payment compensation	13	9
Compensation for loss of office	-	1
Company contributions to money purchase pension schemes	1	1
	<b>25</b>	<b>19</b>

Under IFRS the aggregate value of compensation provided in the accounts for 2006 for directors was US\$98,064,855 (2005: US\$47,085,783).

Included in the share based payment compensation for directors is US\$430,620 (2005: US\$1,240,028) relating to cash schemes.

The aggregate of emoluments and amounts receivable under share based payment compensation of the highest paid director was US\$6,469,194 (2005: US\$3,439,851). He was a member of a money purchase pension scheme and the contribution paid during the year for the money purchase pension scheme was US\$15,367 (2004: US\$650).

# CREDIT SUISSE SECURITIES (EUROPE) LIMITED GROUP

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2006

### 25. Related Party Transactions (continued)

	Group and Company Number of Directors 2006	Group and Company Number of Directors 2005
Retirement benefits are accruing to the following number of directors under:		
Money purchase schemes	4	7
Defined benefit schemes	3	1
Both money purchase and defined benefit	1	4
Total	<u>8</u>	<u>12</u>
The number of directors who exercised share options	<u>1</u>	<u>1</u>
Directors in respect of whom services were received or receivable under long term incentive schemes	<u>9</u>	<u>13</u>

### Remuneration of Key Management Personnel

	Group and Company 2006 US\$M	Group and Company 2005 US\$M
Emoluments	37	17
Amounts receivable under long term incentive schemes	252	131
Compensation for loss of office	2	-
	<u>291</u>	<u>148</u>
Group contributions to money purchase pension schemes	<u>1</u>	<u>4</u>
	<u>292</u>	<u>152</u>

Key Management Personnel include Executive Directors, the Europe, Middle East and Africa Investment Banking Committee ('EMEA') 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 and key management employees have been apportioned to the respective entities.

### e) Loans and advances to Directors and Key Management Personnel

There were no loans or advances made to directors or key management personnel during the period (2005: \$nil).

### f) Liabilities due to pension funds

Liabilities due to own pension funds as at 31 December 2006 and 2005 of US\$19.5M and US\$15.4M respectively are reflected in various liability accounts in the Group's balance sheet.

# CREDIT SUISSE SECURITIES (EUROPE) LIMITED GROUP

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2006

### 26. Employees

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

	Group and Company 2006 Number	Group and Company 2005 Number
Front office	1,787	1,635
Back office	3,202	3,180
	<b>4,989</b>	<b>4,815</b>

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

### 27. Derivatives and Hedging Activities

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

The Group enters into derivative contracts that fall into 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);
- A hedge of the fair value of a recognised asset or liability;
- A hedge of the variability of cash flows to be received or paid related to a recognised asset or liability or a forecasted transaction; or
- A hedge of a net investment in a foreign operation.

### Trading Activities

The Group is active in most of the principal trading markets and transacts in many popular trading and hedging products. As noted above, this includes the use of swaps, futures, options and structured products (custom transactions using combinations of derivatives) in connection with its sales and trading activities. Trading activities include market-making, positioning and arbitrage activities. The majority of the Group's derivatives held as at 31 December 2006 were used for trading activities.



# CREDIT SUISSE SECURITIES (EUROPE) LIMITED GROUP

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2006

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

#### Cash Flow Hedges

The Group uses derivatives to hedge the cash flows associated with forecasted transactions. The maximum length of time over which the Group hedges its exposure to the variability in future cash flows for forecasted transactions is 16 months, with the exception of those forecasted transactions related to the payment of variable interest on existing financial instruments. The following table sets forth details of cash flow hedges:

	Group and Company 2006 US\$M	Group and Company 2005 US\$M
Fair value of open derivative transactions used as cash flow hedges	2	(16)

#### Net Investment Hedges

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

The fair value of open derivative transactions used as net investment hedges for the Group and Company as at 31 December 2006 was an asset of US\$2M (2005: US\$6M liability).

# CREDIT SUISSE SECURITIES (EUROPE) LIMITED GROUP

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2006

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

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

31 December 2006	Group and Company			Group and Company		
	Trading			Hedging		
	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	4,209	55	34	-	-	-
Swaps	301,777	3,609	3,510	-	-	-
Options bought and sold (OTC)	89,344	649	401	-	-	-
Futures	104,187	-	-	-	-	-
Options bought and sold (traded)	808,249	134	385	-	-	-
<b>Interest rate products</b>	<b>1,307,766</b>	<b>4,447</b>	<b>4,330</b>	-	-	-
Forward rate agreements	182,343	3,080	2,725	511	5	1
Swaps	22,124	1,046	611	-	-	-
Futures	1,037	-	-	-	-	-
Options bought and sold (OTC)	46,822	635	616	-	-	-
<b>Foreign Exchange Products</b>	<b>252,326</b>	<b>4,761</b>	<b>3,952</b>	<b>511</b>	<b>5</b>	<b>1</b>
Forward rate agreements	1,269	20	1	-	-	-
Options bought and sold (OTC)	19,646	24	1,224	-	-	-
Swaps	60,212	2,916	3,486	-	-	-
Futures	5,720	-	-	-	-	-
Options bought and sold (traded)	1,823	564	-	-	-	-
<b>Equity/indexed-related products</b>	<b>88,670</b>	<b>3,524</b>	<b>4,711</b>	-	-	-
Credit Swaps	13,946	89	132	-	-	-
<b>Other products</b>	<b>13,946</b>	<b>89</b>	<b>132</b>	-	-	-
<b>Total derivative instruments</b>	<b>1,662,708</b>	<b>12,821</b>	<b>13,125</b>	<b>511</b>	<b>5</b>	<b>1</b>

# CREDIT SUISSE SECURITIES (EUROPE) LIMITED GROUP

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2006

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

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

31 December 2005	Group and Company			Group and Company		
	Trading			Hedging		
	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	2,194	12	23	-	-	-
Swaps	142,266	3,303	2,662	-	-	-
Options bought and sold (OTC)	10,795	25	19	-	-	-
Futures	54,335	-	-	-	-	-
Options bought and sold (traded)	367,580	73	69	-	-	-
<b>Interest rate products</b>	<b>577,170</b>	<b>3,413</b>	<b>2,773</b>	-	-	-
Forward rate agreements	88,587	2,850	2,747	323	1	23
Swaps	19,632	2,097	1,910	-	-	-
Options bought and sold (OTC)	104,399	847	802	-	-	-
<b>Foreign Exchange Products</b>	<b>212,618</b>	<b>5,794</b>	<b>5,459</b>	<b>323</b>	<b>1</b>	<b>23</b>
Forward rate agreements	524	3	3	-	-	-
Options bought and sold (OTC)	237,197	4	769	-	-	-
Swaps	41,209	1,758	4,706	-	-	-
Futures	3,694	-	-	-	-	-
Options bought and sold (traded)	615	-	1	-	-	-
<b>Equity/indexed-related products</b>	<b>283,239</b>	<b>1,765</b>	<b>5,479</b>	-	-	-
Credit Swaps	10,412	74	52	-	-	-
<b>Other products</b>	<b>10,412</b>	<b>74</b>	<b>52</b>	-	-	-
<b>Total derivative instruments</b>	<b>1,083,439</b>	<b>11,046</b>	<b>13,763</b>	<b>323</b>	<b>1</b>	<b>23</b>

	Group and Company		Group and Company	
	2006		2005	
	Positive replacement value	Negative replacement value	Positive replacement value	Negative replacement value
	US\$M	US\$M	US\$M	US\$M
Replacement values (trading) before netting	12,821	13,125	11,046	13,763
Replacement values (trading) after netting	12,821	13,125	11,046	13,763

# CREDIT SUISSE SECURITIES (EUROPE) LIMITED GROUP

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2006

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

The following tables set forth details of trading and hedging derivative contracts according to maturity:

	Gross positive replacement value			Group and Company
	Remaining life			2006
	<1 year	1-5 years	>5 years	Total
	US\$M	US\$M	US\$M	US\$M
Interest rate instruments	916	1,415	2,116	<b>4,447</b>
Foreign exchange	2,547	1,470	749	<b>4,766</b>
Equities/indices	2,698	775	51	<b>3,524</b>
Other	5	71	13	<b>89</b>
<b>Total</b>	<b>6,166</b>	<b>3,731</b>	<b>2,929</b>	<b>12,826</b>

	Gross negative replacement value			Group and Company
	Remaining life			2006
	<1 year	1-5 years	>5 years	Total
	US\$M	US\$M	US\$M	US\$M
Interest rate instruments	766	1,286	2,278	<b>4,330</b>
Foreign exchange	2,395	1,122	436	<b>3,953</b>
Equities/indices	3,368	1,291	52	<b>4,711</b>
Other	47	72	13	<b>132</b>
<b>Total</b>	<b>6,576</b>	<b>3,771</b>	<b>2,779</b>	<b>13,126</b>

	Gross positive replacement value			Group and Company
	Remaining life			2005
	<1 year	1-5 years	>5 years	Total
	US\$M	US\$M	US\$M	US\$M
Interest rate instruments	216	1,180	2,017	<b>3,413</b>
Foreign exchange	2,829	2,536	430	<b>5,795</b>
Equities/indices	143	1,601	21	<b>1,765</b>
Other	-	74	-	<b>74</b>
<b>Total</b>	<b>3,188</b>	<b>5,391</b>	<b>2,468</b>	<b>11,047</b>

	Gross negative replacement value			Group and Company
	Remaining life			2005
	<1 year	1-5 years	>5 years	Total
	US\$M	US\$M	US\$M	US\$M
Interest rate instruments	175	1,040	1,558	<b>2,773</b>
Foreign exchange	2,733	2,200	549	<b>5,482</b>
Equities/indices	3,487	1,968	24	<b>5,479</b>
Other	52	-	-	<b>52</b>
<b>Total</b>	<b>6,447</b>	<b>5,208</b>	<b>2,131</b>	<b>13,786</b>

# CREDIT SUISSE SECURITIES (EUROPE) LIMITED GROUP

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2006

### 28. Guarantees and Commitments

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

31 December 2006	Group and Company							
	Maturity <1 year	Maturity 1-3 years	Maturity 3-5 years	Maturity >5 years	Total gross amount	Total net amount <sup>(1)</sup>	Collateral received	Carrying value
	US\$M	US\$M	US\$M	US\$M	US\$M	US\$M	US\$M	US\$M
<b>Total guarantees</b>	<b>12,175</b>	<b>22,281</b>	<b>2,509</b>	<b>4,893</b>	<b>41,858</b>	<b>41,858</b>	-	<b>41,858</b>

31 December 2005	Group and Company							
	Maturity <1 year	Maturity 1-3 years	Maturity 3-5 years	Maturity >5 years	Total gross amount	Total net amount <sup>(1)</sup>	Collateral received	Carrying value
	US\$M	US\$M	US\$M	US\$M	US\$M	US\$M	US\$M	US\$M
<b>Total guarantees</b>	<b>8,423</b>	<b>540</b>	-	<b>30</b>	<b>8,993</b>	<b>8,993</b>	-	<b>8,993</b>

(1) total net amount relates to gross amount less any sub-participations.

All of the above notionals relate to derivatives disclosed as guarantees. These 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 security 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.

### Commitments

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

The Company has granted to Morgan Guaranty Trust Company of New York a fixed charge over all American Depository Receipts ('ADR's) held by that company on behalf of the Company, and over all rights, claims and interests in the relevant underlying securities. At 31 December 2006 the Company held ADRs to the value of US\$1,612.6M (2005: US\$703.9M).

The Company has granted to Morgan Guaranty Trust Company of New York, as operator of the Euroclear System, a charge over cash and securities held in the account of the Company at Euroclear. At 31 December 2006 the Company had open trades of US\$774.3M with Euroclear (2005: US\$1,876.4M).

The Company has granted to Morgan Guaranty Trust Company of New York a first fixed charge over all sums standing to the credit of the collateral accounts in the name of the Company together with all rights actual or contingent in respect thereof. At 31 December 2006 the Company held no uncollateralised positions with Euroclear (2005: US\$nil).

The Company has granted to HSBC Bank Plc a first fixed charge over all sums receivable by the Company in respect of any transfer or debit of stock or other securities and a first floating charge over the title and interest in the stock and securities in connection with the provision of CGO Settlement Bank facilities. At 31 December 2006 the Company had no open trades with HSBC Bank Plc (2005: US\$15.7M).

# CREDIT SUISSE SECURITIES (EUROPE) LIMITED GROUP

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2006

### 28. Guarantees and Commitments (continued)

The Company has granted a pledge of securities and claims to a syndicate of banks whose lead bank is Citibank. This pledge is for all present and future securities, bonds, notes, certificates of deposits, instruments or rights representing property rights or claims as well as all other debentures which may be pledged in the same form as securities, according to Luxembourg Law. At 31 December 2006 the Company had open trades of US\$3,193.9M with Citibank (2005: US\$2,293.4M).

The Company has granted a first fixed charge to HSBC Bank Plc as Settlement Bank over certain receivables in respect of the Company's membership of CREST, and a first floating charge over all eligible stock and other sums due to the Company against failure of the Company to meet its obligations under the Settlement Bank Facility agreement with HSBC Bank Plc. At 31 December 2006 the Company had open trades of US\$1,114.9M with CREST (2005: US\$519.8M).

The Company has granted to The Bank of New York a charge over all securities held, in the Company's account with Bank of New York, as security for payment and discharge of secured obligations. At 31 December 2006 the Company had no liabilities payable to Bank of New York (2005: US\$nil).

The Company has granted to Emerging Markets Clearing Corporation Assets (EMCC) a charge over all assets and property including all securities and cash on deposit with EMCC as security over any and all obligations and liabilities of the Company to the chargee. No open trades were held by the Company with EMCC at 31 December 2006 (2005: US\$nil).

The Company had underwriting commitments of US\$2,635M at 31 December 2006 (2005: US\$2,371M).

### Lease Commitments

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

	Group and Company	Group and Company
	2006	2005
	US\$M	US\$M
Up to 1 year	40	34
From 1 year to 2 years	42	33
From 2 years to 3 years	38	37
From 3 years to 4 years	35	33
From 5 years and over	1,915	1,669
<b>Future operating lease commitments</b>	<b>2,070</b>	<b>1,806</b>
Less minimum non-cancellable sublease rentals	(93)	(88)
<b>Total net future minimum lease commitments</b>	<b>1,977</b>	<b>1,718</b>

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

	Group and Company	Group and Company
	2006	2005
	US\$M	US\$M
Minimum rentals	46	41
Sublease rental income	(18)	(12)
<b>Total net rental expenses</b>	<b>28</b>	<b>29</b>

# CREDIT SUISSE SECURITIES (EUROPE) LIMITED GROUP

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2006

### 28. Guarantees and Commitments (continued)

#### Other Commitments

The following table sets forth details of other commitments:

	Group and Company 2006 US\$M	Group and Company 2005 US\$M
Forward reverse repurchase agreements:		
Maturity <1 year	2,288	2,096
<b>Total other commitments</b>	<b>2,288</b>	<b>2,096</b>
<b>Collateral received</b>	-	-

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

### 29. Securitisations and Special Purpose Entities

The Group is involved in the formation of SPEs primarily for the purpose of providing clients with 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 consolidated SPEs is shown below.

	2006 US\$M	2005 US\$M
<b>Assets</b>		
Cash and due from banks	10	-
Financial assets designated at fair value through profit or loss	159	-
Other assets	699	-
<b>Total assets</b>	<b>868</b>	<b>-</b>
<b>Liabilities</b>		
Short term borrowings	699	-
Financial liabilities designated at fair value through profit or loss	6	-
Other liabilities	5	-
<b>Total liabilities</b>	<b>710</b>	<b>-</b>
<b>Shareholders' equity</b>		
Called-up share capital	155	-
Retained earnings	3	-
<b>Total shareholders' equity</b>	<b>158</b>	<b>-</b>
<b>Total liabilities and shareholders' equity</b>	<b>868</b>	<b>-</b>

The short term borrowings relate to funds received from the Company. The Company's deposit is reported in 'Interest-bearing deposits with banks'.

# CREDIT SUISSE SECURITIES (EUROPE) LIMITED GROUP

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2006

### 30. 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 and pension and benefit obligations are excluded.

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

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 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 and financial investments from the banking business 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 with no stated maturity and those with original maturities of less than three months, the book value is assumed to approximate 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 and 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.



# CREDIT SUISSE SECURITIES (EUROPE) LIMITED GROUP

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2006

### 30. Fair Value of Financial Instruments (continued)

	Group		Group	
	2006		2005	
	Book value US\$M	Fair value US\$M	Book Value US\$M	Fair Value US\$M
<b>Financial Assets</b>				
Cash and cash equivalents	4,737	4,737	3,897	3,897
Interest-bearing deposits with banks	20	20	655	655
Securities purchased under resale agreements and securities borrowing transactions	194,146	194,133	155,997	156,023
Trading assets	71,334	71,334	59,362	59,362
Financial assets held at fair value through profit and loss	2,057	2,057	790	790
Loans	-	-	15	15
Other investments	9	9	9	9
<b>Total assets</b>	<b>272,303</b>	<b>272,290</b>	<b>220,725</b>	<b>220,751</b>
<b>Liabilities</b>				
Deposits	1,939	1,939	1,042	1,042
Securities sold under repurchase agreements and securities lending transactions	150,554	150,529	122,559	122,583
Trading liabilities	52,131	52,131	46,329	46,329
Financial liabilities held at fair value through profit and loss	4,760	4,760	284	284
Short term borrowings	66,868	66,868	55,393	55,393
Long term debt	2,292	2,292	1,674	1,674
<b>Total liabilities</b>	<b>278,544</b>	<b>278,519</b>	<b>227,281</b>	<b>227,305</b>
<b>Company</b>				
	2006		2005	
	Book value US\$M	Fair value US\$M	Book Value US\$M	Fair Value US\$M
	Book value US\$M	Fair value US\$M	Book Value US\$M	Fair Value US\$M
<b>Financial Assets</b>				
Cash and cash equivalents	4,727	4,727	3,897	3,897
Interest-bearing deposits with banks	719	719	655	655
Securities purchased under resale agreements and securities borrowing transactions	194,146	194,133	155,997	156,023
Trading assets	71,334	71,334	59,362	59,362
Financial assets held at fair value through profit and loss	1,898	1,898	790	790
Loans	-	-	15	15
Other investments	9	9	9	9
<b>Total assets</b>	<b>272,833</b>	<b>272,820</b>	<b>220,725</b>	<b>220,751</b>
<b>Liabilities</b>				
Deposits	1,939	1,939	1,042	1,042
Securities sold under repurchase agreements and securities lending transactions	150,554	150,529	122,559	122,583
Trading liabilities	52,131	52,131	46,329	46,329
Financial liabilities held at fair value through profit and loss	4,754	4,754	284	284
Short term borrowings	66,868	66,868	55,393	55,393
Long term debt	2,292	2,292	1,674	1,674
<b>Total liabilities</b>	<b>278,538</b>	<b>278,513</b>	<b>227,281</b>	<b>227,305</b>

For the year ended 31 December 2006, the amount recognised in the Group and Company profit or loss for financial instruments estimated using a valuation technique and entity specific inputs was a loss of US\$14M (2005: US\$34M gain).

# CREDIT SUISSE SECURITIES (EUROPE) LIMITED GROUP

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2006

### 31. Assets Pledged or Assigned

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

	Group and Company 2006 US\$M	Group and Company 2005 US\$M
Book value of assets pledged and assigned as collateral	39,889	30,366
of which assets provided with the right to sell or repledge	35,755	25,460
Fair value of collateral received with the right to sell or repledge	266,554	206,720
of which sold or repledged	240,319	184,981

As at 31 December 2006 and 2005, 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 borrowings and loans, pledges to clearing organisations, segregation requirement under securities laws and regulations, derivative transactions and bank loans.

UK banking cash reserves, consisting of client money, held by the Group and Company were US\$1,899M as at 31 December 2006 (2005: US\$1,191M). This cash is not reflected on the Balance Sheet of the Group and Company.

# CREDIT SUISSE SECURITIES (EUROPE) LIMITED GROUP

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2006

### 32. Financial Instruments Risk Position

#### a. Overview

The Credit Suisse group, of which the Company is a part, manages its risks under global policies. 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 the Credit Suisse group. The primary objectives of risk management are to protect the financial strength and the reputation of the group, while looking to ensure that capital is well deployed to maximise income and shareholder value. The Credit Suisse 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 controls risk in order to limit the impact of potentially adverse events on Credit Suisse group's capital and income. The Credit Suisse 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 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 members of the CSG Board of Directors and can be balanced against business goals.
- Management accountability: The Group is organised into business segments that own the comprehensive risks assumed through their operations. Management for each segment is responsible for the ongoing management of their respective risk exposures and earning a sufficient long term return for the risks taken.
- Independent oversight: Risk management is a structured process to identify, measure, monitor and report risk. The risk management and legal and compliance functions operate independently of the front office to ensure the integrity of the Group's 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.

# CREDIT SUISSE SECURITIES (EUROPE) LIMITED GROUP

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2006

### 32. Financial Instruments Risk Position (continued)

#### Risk management oversight

Risk management oversight is performed at several levels of the organisation. Key responsibilities lie with the following management bodies and committees.

#### Risk management oversight at the Credit Suisse group management level

- Credit Suisse Executive Management (Chief Executive Officer and Executive Boards): Responsible for implementing the strategy and actively managing its portfolio of businesses and its risk profile to ensure that risk and return are balanced and appropriate for current market conditions.
- Credit Suisse Chief Risk Officer (CRO): Responsible for establishing an organisational basis to manage all risk management matters of Credit Suisse Group through the four primary risk functions independent from the front office (SRM, RMM, CRM, BORO), as defined below.
- Strategic Risk Management ('SRM'): SRM is responsible for assessing the overall risk profile both on a Credit Suisse group-wide, portfolio level and for individual businesses, and recommending corrective action where necessary.
- Risk Measurement and Management ('RMM'): RMM is 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.
- Credit Risk Management ('CRM'): CRM is headed by the Chief Credit Officer ('CCO') with responsibility for approving credit limits, monitoring and managing individual exposures and assessing and managing the quality of the segment and business area's credit portfolios and allowances.
- Bank Operational Risk Oversight ('BORO'): BORO is responsible for oversight of the Credit Suisse group's operational risk, including governance and policy aspects, development and reporting of key risk indicators as well as operational risk capital management and allocation.

#### Credit Suisse risk management committees

- Capital Allocation and Risk Management Committee ('CARMC') is responsible for supervising and directing the Credit Suisse group risk profile on a consolidated basis, recommending risk limits to the CSG Board of Directors and its Risk Committee and for establishing and allocating risk limits within Credit Suisse group. CARMC meetings focus on the following three topics on a rotating basis: 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, including methodology and parameters.
- 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 and reviewing processes regarding reputational risks within Credit Suisse group.
- Divisional Risk Management Committees ('RMC'): Within the investment banking, private banking and asset management segments of Credit Suisse group, the respective divisional RMCs are established to manage risk on a divisional basis.

# CREDIT SUISSE SECURITIES (EUROPE) LIMITED GROUP

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2006

### 32. Financial Instruments Risk Position (continued)

#### Risk limits

A sound system of risk limits is fundamental to efficient control of the range of risks inherent in the business activities. The size of the limits reflects Credit Suisse group's risk appetite given the market environment, the business strategy and the financial resources available to absorb losses.

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 a variety of specific limits. For example, there are consolidated controls over trading exposures (Value at Risk or 'VaR'), the mismatch of interest-earning assets and interest-bearing liabilities, private equity and seed money investments, and emerging market country exposures. Risk limits are allocated to lower organisational levels within the businesses. Numerous other limits are established to control specific risks, including a system of individual counterparty credit limits that is used to control concentration risks.

#### b. 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 ERC as a consistent and comprehensive risk management tool for risk management, capital management and planning and performance measurement.

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 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.

#### c. 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 Credit Suisse 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 Credit Suisse group down to specific business areas. Credit Suisse group uses market risk measurement and management methods designed to meet or exceed industry standards. These include both general tools capable of calculating comparable exposures across Credit Suisse 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 VaR and scenario analysis. Additionally, the market risk exposures are also reflected in Credit Suisse 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.

# CREDIT SUISSE SECURITIES (EUROPE) LIMITED GROUP

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2006

### 32. 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 equity, and also provides a means of aggregating and netting a variety of positions within a portfolio to reflect actual correlations and offsets between different assets.

Historical financial market rates 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 standards published by the Basel Committee on Banking Supervision 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.

The Company has approval from the Financial Services Authority to use its VaR model in the calculation of trading book capital requirements. The Company continues to receive regulatory approval for ongoing enhancements to the methodology, and the model is subject to regular reviews by regulators.

#### 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 Credit Suisse 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 intended to be 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 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 addition, to identify areas of risk concentration and potential vulnerability to stress events across Credit Suisse group, it has developed a set of scenarios, which are consistently applied across all 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 CSG Board of Directors and senior management are regularly provided with scenario analysis estimates, scenario analysis trend information and supporting explanations to create transparency on key risk exposures and to support senior management in managing risk.

# CREDIT SUISSE SECURITIES (EUROPE) LIMITED GROUP

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2006

### 32. 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 the purpose of analysing our market risk exposure, not for financial statement purposes.

##### Development of trading portfolio risks

The table below shows the trading-related market risk exposure for the Company, 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.

The Company's one-day, 99% VaR at 31 December 2006 was US\$45 million, compared to US\$36 million at 31 December 2005.

Market Risk in Credit Suisse Securities (Europe) Ltd Company Trading Portfolios (1-day, 99% Value at Risk)<sup>1)</sup>

In US\$M	Min.	Max.	Average	29.12.2006	Min.	Max.	Average	30.12.2005
Interest rate & credit spread	11.3	31.7	16.0	18.4	9.2	23.9	15.0	12.1
Foreign exchange	2.2	56.5	9.0	6.9	1.6	11.7	6.2	9.7
Equity	16.7	46.6	26.8	32.8	5.0	21.8	10.9	21.5
Commodity	-	3.6	1.5	0.5	-	1.4	0.2	-
Diversification Benefit	<sup>2)</sup>	<sup>2)</sup>	(11.9)	(13.7)	<sup>2)</sup>	<sup>2)</sup>	(10.4)	(7.8)
<b>Total</b>	<b>26.4</b>	<b>85.6</b>	<b>41.4</b>	<b>44.9</b>	<b>12.5</b>	<b>36.8</b>	<b>21.9</b>	<b>35.5</b>

1) All figures above represent ten-day VaR scaled to a one-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.

# CREDIT SUISSE SECURITIES (EUROPE) LIMITED GROUP

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2006

### 32. Financial Instruments Risk Position (continued)

#### VaR results and distribution of trading revenues

Various techniques are used to assess the accuracy of the VaR model used for its trading portfolios, including backtesting. 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. Backtesting profit and loss 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. An accurate one-day, 99% VaR model should have no more than four backtesting exceptions per year. A backtesting exception occurs when the daily loss exceeds the daily VaR estimate. The Company had three backtesting exceptions in 2006.

#### **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 the Company 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. Foreign exchange translation risks are not included in the following analysis.

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

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 the Company would be an increase of approximately US\$4 million as at 31 December 2006. This impact was immaterial as at 31 December 2005.

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 the Company would be a decrease of approximately US\$16 million at 31 December 2006 compared to a decrease in the value of the non-trading portfolio of approximately US\$13 million at 31 December 2005.

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

#### **d. Currency Risk**

Currency risk is the risk of loss resulting from changes in exchange rates.

##### Trading

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

The Company manages its currency risk arising from their trading activities with the Value at Risk (VaR) methodology, a discussion of which is contained in section c) of this Note.



# CREDIT SUISSE SECURITIES (EUROPE) LIMITED GROUP

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2006

### **32. Financial Instruments Risk Position (continued)**

#### Non-Trading

The Group's reporting currency is US Dollars but its assets, liabilities, income and expenses are denominated in many currencies. Reported profits or losses are exchanged monthly into US Dollars, reducing volatility in the Group's earnings from subsequent changes in exchange rates.

At 31 December 2006, the largest non-trading currency exposures against the US Dollar were in EUR (long US\$83M) and GBP (short US\$152M). At 31 December 2005, the largest exposures were in EUR (long US\$22M) and GBP (short US\$427M).

#### **e. 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 areas' credit portfolios. CRM reports to the Chief Risk Officer of the Credit Suisse group.

#### **i) Definition of Credit Risk**

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

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

#### **ii) 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.

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 the Credit Suisse group.

# CREDIT SUISSE SECURITIES (EUROPE) LIMITED GROUP

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2006

### 32. 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. The Credit Suisse group 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 clients and includes regular asset and collateral quality reviews, business and financial statement analysis and relevant economic and industry studies. Other key factors considered in the review process include current and projected business and economic conditions, historical experience, regulatory requirements and concentrations of credit 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 the Credit Suisse group 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.

#### Credit Suisse Securities (Europe) Ltd Unsecured Exposure by Counterparty Rating

	Group and Company 2006		Group and Company 2005	
	US\$M	%	US\$M	%
AAA	2,686	35.4	2,464	35.0
AA+ to AA-	2,606	34.4	2,615	37.1
A+ to A-	2,045	27.0	1,299	18.4
BBB+ to BBB-	140	1.8	395	5.6
BB and below+ to BB-	105	1.4	270	3.9
	<u>7,582</u>		<u>7,043</u>	

The above table includes all unsecured commitments, derivatives, securities purchased and sold under resale and repurchase agreements, and short term cash trades.

#### iii) Risk mitigation

The Group 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.

# CREDIT SUISSE SECURITIES (EUROPE) LIMITED GROUP

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2006

### 32. Financial Instruments Risk Position (continued)

#### f. Operational risk

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

Operational risk is inherent in most aspects of the Credit Suisse 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. Credit Suisse group therefore manages operational risk differently from market and credit risk. The Credit Suisse group believes that effective management of operational risks requires a common bank-wide framework with ownership residing with the management responsible for the relevant business process. In order to accomplish this, the Credit Suisse group has established a central team within the Chief Risk Officer division that focuses on the coordination of consistent policy, tools and practices throughout Credit Suisse group for the management, measurement, monitoring and reporting of relevant operational risks. This team is also responsible for the overall operational risk framework, measurement methodology and capital calculations. Knowledge and experience are shared throughout the Credit Suisse group to maintain a coordinated approach.

Within the Credit Suisse 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. In addition, each division takes responsibility for its own operational risks and has a dedicated operational risk function. Operational risk is thus controlled through a network of controls, procedures, reports and responsibilities. In addition to the quarterly firm-level CARMC meetings covering operational risk, regular risk committees meet at the divisional level, where operational risk exposures are discussed, with representation from senior staff in all the relevant functions. Credit Suisse group utilises a number of firm-wide tools for the management, measurement, monitoring and reporting of operational risk. These include: 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 ERC 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 Credit Suisse group faces. Groups of senior staff review each scenario and discuss the likelihood of occurrence and the potential severity of loss. Internal and external loss data, along with certain business environment and internal control factors (for example, self-assessment results, key risk indicators) are considered as part of this process. Based on the output from these meetings, the Credit Suisse 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.

# CREDIT SUISSE SECURITIES (EUROPE) LIMITED GROUP

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2006

### **32. Financial Instruments Risk Position (continued)**

#### **g. 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 recommendations of CRM, SRM and Credit Suisse Group's economists.

Country limits for emerging markets are approved annually by the Board of Directors of CSG, following recommendations from CARMC. The measurement of exposures against country limits is undertaken by RMM with 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 group has lent or committed to lend. The day-to-day management of country exposure is assigned to each of the core businesses in accordance with its business authorizations 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.

#### **h. Settlement Risk**

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

In those instances where market convention and/or products preclude a value-for-value exchange, the Group manages its risk through confirmation and affirmation of transaction details with counterparties. In addition, it also proactively seeks to manage the timing of settlement instructions to its agents and the reconciliation of incoming payments in order to reduce the window of exposure. CRM considers these factors in deciding counterparty risk limits.

#### **i. Legal Risk**

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

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

# CREDIT SUISSE SECURITIES (EUROPE) LIMITED GROUP

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2006

### 32. Financial Instruments Risk Position (continued)

#### j. Reputational Risk

Credit Suisse group's policy is to avoid any action or transaction that brings with it a potentially unacceptable level of risk to its reputation. Reputational risk may arise from a variety of sources, including the nature or purpose of a proposed transaction, the identity or nature of a potential client, the regulatory or political climate in which the business will be transacted or significant public attention surrounding the transaction itself. Where the presence of these or other factors gives rise to potential reputational risk for Credit Suisse group, the relevant business proposal is required to be submitted to Credit Suisse group's Reputational Risk Review Process. This involves a vetting of the proposal by senior business management, and its subsequent referral to one of the Credit Suisse group'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 group's participation.

#### k. Liquidity Risk

The Global Treasury department at Credit Suisse group manages the day-to-day liquidity position of Credit Suisse group. The Group 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 group's liquidity disciplines are segregated into two main funding franchises:

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

2 Those funds raised by fellow subsidiaries, particularly Credit Suisse (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 been shown to be reliable even in high stress conditions.

The Global Treasury department 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 manages 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.

#### l. 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 Credit Suisse 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 CSG 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 Credit Suisse group for managing interest rate risk is provided in section c) of this Note.



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