# CREDIT SUISSE SECURITIES (EUROPE) LIMITED

(FORMERLY KNOWN AS
CREDIT SUISSE FIRST BOSTON (EUROPE) LIMITED)

**ANNUAL REPORT 2005**

## BOARD OF DIRECTORS

Michael G. Philipp (Chairman and CEO)

Jeremy J. Bennett

Gael de Boissard

Stephen Dainton

Renato Fassbind (Non Executive)

Tobias Guldimann (Non Executive)

Hamish Leslie-Melville

David R. Mathers

Marco G. Mazzucchelli

Costas P. Michaelides

## COMPANY SECRETARY

Paul Hare

**COMPANY REGISTRATION NUMBER: 891554**

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

**Strategy**

Credit Suisse Securities (Europe) Ltd 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.

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

The Company has branch operations in Frankfurt, Paris, Amsterdam, Milan and Seoul. The Frankfurt, Paris, Amsterdam and Milan branches provide equity broking and investment banking services.

In addition to providing equity broking and investment banking services the Korean branch received approval from South Korea's Financial Supervisory Commission to engage in over-the-counter derivatives business. The Korean branch is a member of the Korean Securities Dealers Association.

**International Financial Reporting Standards**

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

**Business Review**

The total operating income for the Company, and its branches, for 2005 was US$2,305M (2004: US$1,630M). The loss after tax, attributable to Shareholders, for the year was US$496M compared with US$198M in 2004.

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

| | 2005<br>US$M | 2004<br>US$M |
|---|---|---|
| Fixed Income Division | 809 | 620 |
| Equity Division | 1,259 | 727 |
| Investment Banking Division | 239 | 179 |
| Other | (2) | 104 |
| | 2,305 | 1,630 |

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 FID results are marginally higher than the previous year. The significant results came from Emerging Markets trading and Leveraged Finance commission income.

The Equity Division engages in a broad range of equity activities for investors including sales, trading, brokerage and market making in international equity and equity related securities, options and futures. The Company supports the Prime Brokerage business.

The Equity Division results are significantly higher than in the prior year. The Equity cash business, has generated substantial commission income for the Company and the Equity Proprietary desk has generated significant trading revenues.

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.

The IBD results showed a significant gain on the previous year reflecting the very buoyant M&A environment.

'Other' reflects operating income that is not specifically allocated to any business division.

The Company's cost base for the year was US$2,940M (2004:US$1,865M). The increase was due to higher compensation costs, and the increase in overhead and support costs.

# DIRECTORS' REPORT FOR THE YEAR ENDED 31 DECEMBER 2005

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

**Change of Name**

Credit Suisse Securities (Europe) Limited (the "Company") changed its name from Credit Suisse First Boston (Europe) Limited on 16 January 2006.

**Activities**

Credit Suisse Securities (Europe) Ltd 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.

The principal activities of the Company are the arranging of finance for clients in the international capital markets, the provision of financial advisory services and acting as dealer in securities, derivatives and foreign exchange on a principal and agency basis. The Company has branch operations in Frankfurt, Paris, Amsterdam, Milan and Seoul. The Korean branch is a member of the Korean Securities Dealers Association. The Frankfurt, Paris, Milan and Amsterdam branches provide equity broking and investment banking services.

**Results**

The Company's loss after tax for the year was US$496M (2004 loss: US$198M). No dividends were paid or are proposed for 2005 (2004: US$nil).

**Directors**

The names of the directors as at the date of this report are set out on page 2. Changes in the directorate since 31 December 2004 and up to the date of this report are as follows:

Appointments

| | |
|---|---|
| Michael G. Philipp | 01 February 2005 |
| Jeremy J. Bennett | 22 March 2005 |
| Christopher R. Carter | 22 March 2005 |
| Gael de Boissard | 09 December 2005 |
| Stephen Dainton | 09 December 2005 |
| Hamish Leslie-Melville | 09 December 2005 |
| David R. Mathers | 25 October 2005 |

Resignations

| | |
|---|---|
| Trevor Price | 31 January 2005 |
| Brady W. Dougan | 01 February 2005 |
| Christopher R. Carter | 09 December 2005 |
| Ian C. Carter | 22 March 2005 |
| James E. Kreitman | 22 March 2005 |
| James H. Leigh-Pemberton | 22 March 2005 |
| Richard E. Thornburgh | 31 December 2005 |

None of the directors who held office at the end of the financial year was beneficially interested, at any time during the year, in the shares of the Company or had any disclosable interest in shares of Credit Suisse Group companies.

**Subordinated loan capital**

During the year the Company borrowed US$150M of additional subordinated loan capital from Credit Suisse First Boston Finance BV (2004: repaid US$300M).

**Capital Contribution**

During the year the Company received US$400M additional capital contributions from Credit Suisse Investment Holdings (UK) (formerly Credit Suisse First Boston (UK) Investment Holdings).

**Employee Involvement and Employment of Disabled Persons**

During the year, the Company has worked with an external consultancy to ensure that its building complies with recent legislative changes. The Company has also developed a forward strategy which supports its desire to become an employer of choice for all including the disabled. The Company 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 Company made US$282,177 (2004: US$645,125) of charitable donations. There were no political donations made by the Company during the year (2004: US$nil).

**Auditors**

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

**International Financial Reporting Standards**

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

**Subsequent Events**

Since the end of 2005 the Company has received an additional capital contribution of US$525M from Credit Suisse Investment Holdings (UK) and borrowed additional subordinated loan capital of US$175M from Credit Suisse First Boston Finance BV.

By Order of the Board

Paul Hare
Company Secretary

One Cabot Square
London E14 4QJ
15 March 2006

## STATEMENT OF DIRECTORS' RESPONSIBILITIES

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

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

The financial statements are required by law to present fairly the financial position and the performance of the company; 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 these financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgments and estimates that are reasonable and prudent;
- state whether they have been prepared in accordance with IFRS as adopted by the EU; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the 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 company and enable them to ensure that its financial statements comply with the Companies Act 1985. They have general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the company and to prevent and detect fraud and other irregularities.

# Independent Auditors' Report to the Members of Credit Suisse Securities (Europe) Limited (formerly known as Credit Suisse First Boston (Europe) Limited)

We have audited the financial statements of Credit Suisse Securities (Europe) Ltd (formerly Credit Suisse First Boston (Europe) Ltd) for the year ended 31 December 2005 which comprise the income statement, the balance sheet, the cash flow statement, the statement 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 section 235 of 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**

As described in the Statement of Directors' Responsibilities set out on page 7 the Company's directors are responsible for the preparation of the annual report and the financial statements in accordance with applicable law and International Financial Reporting Standards (IFRS) as adopted by the EU.

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 whether the financial statements have been properly prepared in accordance with the Companies Act 1985. We also report to you if, in our opinion, the Directors' Report is not consistent with the financial statements, if 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 judgements made by the directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the 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 financial statements:

- give a true and fair view, in accordance with IFRS as adopted by the EU, of the state of the Company's affairs as at 31 December 2005 and of its loss for the year then ended; and
- have been properly prepared in accordance with the Companies Act 1985.

KPMG Audit Plc

**KPMG Audit Plc**
Chartered Accountants
Registered Auditor
London
15 March 2006

## INCOME STATEMENT FOR THE YEAR ENDED 31 DECEMBER 2005

| | Note | 2005 US$M Including IAS32/39 | 2004 US$M Excluding IAS32/39 |
|---|---|---|---|
| Interest and dividend income | 4 | 4,293 | 2,606 |
| Interest expense | 4 | (5,196) | (2,967) |
| **Net interest income** | 4 | **(903)** | **(361)** |
| Net commissions and fees | 5 | 1,372 | 1,098 |
| Trading revenues | 6 | 1,890 | 936 |
| Other revenues | 5 | (54) | (43) |
| **Total non-interest revenues** | | **3,208** | **1,991** |
| **Net operating income** | | **2,305** | **1,630** |
| Compensation and benefits | 5 | (2,275) | (1,500) |
| Other expenses | 5 | (665) | (365) |
| **Total operating expenses** | | **(2,940)** | **(1,865)** |
| **Loss before tax** | | **(635)** | **(235)** |
| Income tax expense | 7 | 139 | 37 |
| **Loss after tax** | | **(496)** | **(198)** |

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

The notes on pages 14 to 83 form an integral part of these financial statements.

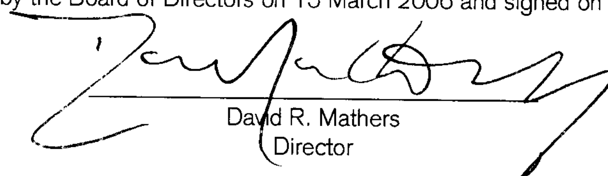
CREDIT SUISSE SECURITIES (EUROPE) LIMITED
(FORMERLY KNOWN AS CREDIT SUISSE FIRST BOSTON (EUROPE) LIMITED)

## BALANCE SHEET AS AT 31 DECEMBER 2005

| | Note | 2005<br>US$M<br>Including IAS32/39 | 2004<br>US$M<br>Excluding IAS32/39 |
|---|---|---|---|
| **Assets** | | | |
| Cash and cash equivalents | | 3,897 | 3,135 |
| Interest-bearing deposits with banks | | 655 | 300 |
| Securities purchased under resale agreements and securities borrowing transactions | 8 | 155,997 | 100,903 |
| Trading assets | 6 | 59,362 | 48,349 |
| Other financial assets held at fair value through profit and loss | 6 | 790 | - |
| Loans | 9 | 15 | - |
| Other investments | 10 | 9 | 8 |
| Deferred tax assets | 11 | 398 | 249 |
| Other assets | 12 | 30,271 | 18,942 |
| Investments in associated undertakings | 14 | - | - |
| Goodwill | 15 | 6 | 7 |
| Property, plant and equipment | 16 | 64 | 72 |
| **Total assets** | | **251,464** | **171,965** |
| **Liabilities** | | | |
| Deposits | 17 | 1,042 | 262 |
| Securities sold under resale agreements and securities lending transactions | 8 | 122,559 | 66,397 |
| Trading liabilities | 6 | 46,329 | 27,954 |
| Other financial liabilities held at fair value through profit and loss | 6 | 284 | - |
| Short term borrowings | 18 | 55,393 | 59,952 |
| Current tax liabilities | | 154 | 36 |
| Long term debt | 19 | 1,674 | 1,524 |
| Deferred tax liabilities | 11 | 11 | 11 |
| Other liabilities | 20 | 23,498 | 15,204 |
| **Total liabilities** | | **250,944** | **171,340** |
| **Shareholders' equity** | | | |
| Called up share capital | 22 | 3,275 | 2,875 |
| Retained earnings | | (2,718) | (2,220) |
| Other reserves | | (37) | (30) |
| **Total shareholders' equity** | | **520** | **625** |
| **Total liabilities and shareholders' equity** | | **251,464** | **171,965** |

The notes on pages 14 to 83 form an integral part of these financial statements.

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



David R. Mathers
Director

CREDIT SUISSE SECURITIES (EUROPE) LIMITED
(FORMERLY KNOWN AS CREDIT SUISSE FIRST BOSTON (EUROPE) LIMITED)

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

| | Attributable to equity holders of the Company | | | | | |
|---|---|---|---|---|---|---|
| | **Share Capital** | **Retained Earnings** | **Other Reserves** | | | **Total** |
| | | | Cashflow hedging reserve | Translation reserve | Total | |
| | US$M | US$M | US$M | US$M | US$M | US$M |
| **Balance at 1 January 2005 (excluding IAS 32/39)** | 2,875 | (2,220) | - | (30) | (30) | 625 |
| **Impact of IAS 32/39** | - | (2) | 3 | - | 3 | 1 |
| **Restated balance at 1 January 2005 (including IAS 32/39)** | 2,875 | (2,222) | 3 | (30) | (27) | 626 |
| Foreign exchange translation differences | - | - | - | 5 | 5 | 5 |
| Net loss 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) |
| **Total recognised income and expense for the year** | - | (496) | (3) | (7) | (10) | (506) |
| Capital contribution | 400 | - | - | - | - | 400 |
| **Balance at 31 December 2005** | 3,275 | (2,718) | - | (37) | (37) | 520 |

## STATEMENT OF CHANGES IN EQUITY FOR THE YEAR ENDED 31 DECEMBER 2004

| | Attributable to equity holders of the Company | | | |
|---|---|---|---|---|
| | Share Capital | Retained Earnings | Translation reserve | Total |
| | US$M | US$M | US$M | US$M |
| **Restated balance at 1 January 2004 (excluding IAS 32/39)** | 2,575 | (2,022) | (29) | 524 |
| Foreign exchange translation differences | - | - | 35 | 35 |
| Net loss on hedges of net investments in foreign entities taken to equity | - | - | (36) | (36) |
| Net loss for the year | - | (198) | - | (198) |
| **Total recognised income and expense for the year** | - | (198) | (1) | (199) |
| Capital contribution | 300 | - | - | 300 |
| **Balance at 31 December 2004 (excluding IAS 32/39)** | 2,875 | (2,220) | (30) | 625 |

CREDIT SUISSE SECURITIES (EUROPE) LIMITED
(FORMERLY KNOWN AS CREDIT SUISSE FIRST BOSTON (EUROPE) LIMITED)

## CASH FLOW STATEMENT FOR THE YEAR ENDED 31 DECEMBER 2005

| | 31 December 2005 Including IAS32/39 US$M | 31 December 2004 Excluding IAS32/39 US$M |
|---|---|---|
| **Operating activities of operations** | | |
| Loss before tax for the year | (635) | (235) |
| **Adjustments to reconcile net income to net cash provided by/(used in) operating activities** | | |
| Non-cash items included in loss before tax and other adjustments: | | |
| Impairment, depreciation and amortisation on property, plant and equipment | 8 | 10 |
| Interest accrued on subordinated debt | 68 | 42 |
| Foreign exchange (gains)/ losses | (4) | (7) |
| Net (increase)/decrease in operating assets: | | |
| Interest bearing deposits with banks | (355) | (300) |
| Securities purchased under resale agreements and securities borrowing transactions | (18,893) | (25,082) |
| Trading assets | (8,535) | (11,682) |
| Other financial assets held at fair value through profit and loss | (790) | - |
| Loans | (15) | - |
| Accrued income, prepaid expenses and other assets | (8,109) | (4,459) |
| Deferred tax provision | 6 | - |
| Net increase/(decrease) in operating liabilities: | | |
| Securities sold under resale agreements and securities lending transactions | 19,962 | 8,868 |
| Deposits | 780 | (1,127) |
| Short term borrowings | (4,967) | 30,704 |
| Trading liabilities | 15,893 | 283 |
| Other financial liabilities held at fair value through profit and loss | 284 | - |
| Accrued expenses and other liabilities | 5,056 | 4,366 |
| **Cash generated from/(used in) operations** | **(246)** | **1,381** |
| Income tax (paid) / received | 118 | (66) |
| **Net cash flow from /(used in) operating activities** | **(128)** | **1,315** |
| **Investing activities** | | |
| Purchase of other investments | (1) | (4) |
| Proceeds from sale of investment in associated undertaking | - | 38 |
| Capital expenditure for property, plant and equipment | (5) | (5) |
| **Net cash flow from/(used in) investing activities** | **(6)** | **29** |
| **Financing activities** | | |
| Increases in/(repayments of) long term debt | 150 | (300) |
| Increase in capital contribution | 400 | 300 |
| Interest paid on long term debt | (62) | (40) |
| **Net cash flow from /(used in) financing activities** | **488** | **(40)** |
| | | |
| **Net increase in cash and cash equivalents** | **354** | **1,304** |
| **Cash and cash equivalents at beginning of the year** | **3,543** | **1,831** |
| **Cash and cash equivalents at end of the year** | **3,897** | **3,135** |

The notes on pages 14 to 83 form an integral part of these financial statements.

## 1. General

Credit Suisse Securities (Europe) Limited is a Company domiciled in the United Kingdom.

## 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 Company is required to prepare financial statements in accordance with International Financial Reporting Standards (IFRS) as adopted by the EU, including the standards (IAS/IFRS), as well as the interpretations issued by both the Standing Interpretations Committee (SIC) and the International Financial Reporting Interpretations Committee (IFRIC) as applicable to the Company for financial years 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).

This is the Company's first financial statements under IFRS and IFRS 1 has been applied.

An explanation of how the transition to IFRS has affected the reported financial position and financial performance of the Company is provided in Note 34.

### 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 Company as at fair value through profit or loss.

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

In respect of financial instruments, the Company has adopted IAS 32 'Financial Instruments: Disclosure and Presentation' and IAS 39 'Financial Instruments: Recognition and Measurement' from 1 January 2005, as adopted by the EU. Comparatives for 2004 have not been restated to reflect the requirements of IAS 32 and IAS 39, as permitted by IFRS 1. Financial instruments in that period are accounted for under UK GAAP in accordance with the accounting policies set out in the financial statements for the year ended 31 December 2004 (see Note 34). Had IAS 32 and 39 been applied in 2004, the impact of transition would have been composed of similar adjustments as presented in Note 34.

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

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

Amendments to IAS 39 'The Fair Value Option' were adopted by the Company as of 1 January 2005, the same date on which the Company commenced applying IAS 32 and 39. The Company did not adopt the amendments to IAS 39/IFRS 4 relating to Financial Guarantee Contracts and elected not to early adopt the provisions of IFRS 7 'Financial Instruments – Disclosures'. Had the Company early adopted IFRS 7 there would have been additional disclosures regarding cash flow and net investment hedge accounting.

**c) Application of UK GAAP to Comparative Figures for 2004**

Prior to implementation of IFRS, the Company prepared its financial statements in accordance with UK GAAP. These statements have been prepared in accordance with IFRS as endorsed by the EU for both 2004 and 2005 with the exception of IAS 32/39, which is applied from 1 January 2005. Whilst the balance sheet classification is in accordance with IAS 30/IAS 1, measurement of the balances presented are still based on UK GAAP. The items affected are as follows:

| | Note |
|---|---|
| **Income statement positions affected** | |
| Trading revenues | 6 |
| | |
| **Balance sheet positions affected** | |
| Cash and cash equivalents | |
| Interest bearing deposits with banks | |
| Securities purchased under resale agreements and securities borrowing transactions | 8 |
| Trading assets | 6 |
| Other assets | 12 |
| Deposits | 17 |
| Securities sold under resale agreements and securities lending transactions | 8 |
| Trading liabilities | 6 |
| Short term borrowings | 18 |
| Long term debt | 19 |
| Other liabilities | 20 |

A description of the UK GAAP measurement basis used for the 2004 comparative figures of the positions mentioned above is found in Note 34.

**d) Foreign currency**

Transactions denominated in currencies other than the functional currency of the reporting entity are translated at the foreign exchange rate ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies at balance sheet date are translated to 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.

For the purpose of consolidation, the assets and liabilities of branch operations with functional currencies other than US$ are translated into US$ equivalents using spot foreign exchange rates applicable at that date, whereas revenues and expenses are translated using the average foreign exchange rate for the period. The resulting translation differences are recorded directly in shareholders' equity as cumulative translation adjustments.

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

**e) Cash and cash equivalents**

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

**f) Securities purchased or sold under resale 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 Company 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 in the 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 recorded 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 Company 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.

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

**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 intent 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. 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.

**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 j 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 *"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.

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

Where hedge accounting is applied, the Company 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 Company discontinues hedge accounting prospectively in the following circumstances:

- 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 Company otherwise determines that designation of the derivative as a hedging instrument is no longer appropriate.

***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. 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 "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 Company 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 Company 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 *"Cumulative Translation Differences"* to the extent that the hedge is effective. The change in fair value representing hedge ineffectiveness is transferred to the income statement. The Company 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.

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

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

The Company has adopted the EU endorsed Fair Value Option amendment of IAS 39 which allows an entity to designate financial assets and liabilities as held at fair value through profit and loss either at transition to IFRS on 1 January 2005 or at the inception of the trade from that date forward. Financial assets and liabilities are only designated as held at fair value through profit and loss if the instruments contain a substantive embedded derivative, or when doing so results in more relevant information, because either:

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

(ii) a group of financial assets, financial liabilities or both is managed and its performance is evaluated on a fair value basis, in accordance with a documented risk management or investment strategy, and information about the Company is provided internally on that basis to the entity's key management personnel. This election is used for instruments purchased or issued by business units that manage their performance on a fair value basis. For all instrument elected under this criterion, the business maintains a documented strategy that states that these instruments are risk managed on a fair value basis. Additionally, management rely upon the fair value of these instruments in evaluating the performance of the business.

The Fair Value Option has been applied to certain debt instruments, equity securities and loans and the related assets and liabilities are presented 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 "*Trading Revenues*".

**k) Derecognition**

The Company 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 Company 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 Company 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 Company derecognises financial liabilities when they are extinguished. Where the Company 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 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.

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

**m) Netting**

The Company 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 Company's net position on multiple transactions with the same counterparty are legally protected by Master Netting Agreements. Such agreements ensure that the net position is settled on the event of default of either counterparty and effectively limit credit risk on gross exposures. However, if the transactions themselves are not intended to be settled net nor will they settle simultaneously, it is not permissible under 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 equaling the amount payable.

**o) Income taxes**

Income tax on the profit and 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; and tax losses. The amount of deferred tax provided is based on the amount at which it is expected to recover or settle the carrying amount of assets and liabilities on the balance sheet, using tax rates enacted or substantively enacted at the balance sheet date.

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

Additional income taxes that arise from the distribution of dividends are recognised at the same time as the liability to pay the related dividend arises.

Information as to the calculation of income tax on the profit and loss for the periods presented is included in Note 7.

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

**p) Intangible assets**

Intangible assets consist primarily of goodwill which represents the excess of the cost of acquisition over the fair value of the net assets acquired at the date of acquisition.

Intangible assets are 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 Company 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 |

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 Company 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.

## 2. Significant Accounting Policies (continued)

The Company'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 exceeded 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) 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 only disclosed. However, provisions are recognised (assuming that a reliable estimate can be made) if they are current obligations and it is probable that an outflow of resources embodying economic benefits will be required to settle the obligations.

### t) 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 group Credit Suisse Group to certain employees. The Company purchases Credit Suisse Group (CSG) shares from Credit Suisse (International) Holding AG (formerly Credit Suisse First Boston (International) Holding AG), another 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.

### u) Interest income and expense

Interest includes interest income and expense on the Company'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 Company's trading derivatives, except for hedging relationships, trading instruments and financial instruments classified as at fair value through profit and loss. These are recorded in *"Trading Revenues"*.

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

**v) 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.

**w) Operating Leases**

The leases entered into by the Company 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.

**3. Critical Accounting Estimates and Judgements in Applying Accounting Policies**

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

***Fair Value***

As is the normal practice in the industry, the values the Company report in the financial statements with respect to financial instruments owned and financial instruments sold 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 Company do 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.

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

***Litigation contingencies***

A contingency is an existing condition that involves a degree of uncertainty that will ultimately be resolved upon the occurrence of future events. From time to time, the Company 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 Company'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 Company'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.

***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, the 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 an 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 Group 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.

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

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

As a normal part of the Company'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 Company 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 Company 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 probable inherent loss. The loan valuation allowance for inherent loss is established by analysing historical and current default probabilities, historical recovery assumptions, and internal risk ratings. The methodology for calculating specific allowances involves judgements at many levels, such as early identification of deteriorating credits. Extensive judgement is required in order to evaluate properly the various indicators of financial condition of a counterparty and likelihood of repayment.

***Income taxes***

***Deferred tax valuation***

Deferred tax assets and liabilities are recognised to reflect the estimated amounts of income tax recoverable 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 Company accrues for tax contingencies despite the belief that positions taken in tax returns are always fully supportable. Tax contingency accruals are adjusted due to changing facts and circumstances, such as case law, progress of audits or when an event occurs 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.

#### 4. Interest and Dividend Income and Interest Expense

| | 2005 US$M | 2004 US$M |
|---|---|---|
| Interest income on cash, cash equivalents and loans, and dividend income | 299 | 124 |
| Securities purchased under resale agreements and securities borrowing transactions | 3,959 | 2,467 |
| Other interest income on cash collateral | 35 | 15 |
| **Total interest and dividend income** | **4,293** | **2,606** |
| Interest expense on deposits | (21) | (13) |
| Securities sold under resale agreements and securities lending transactions | (3,218) | (2,022) |
| Interest expense on short-term borrowings | (1,804) | (853) |
| Interest expense on long-term debt | (68) | (42) |
| Other interest expense on cash collateral | (85) | (37) |
| **Total interest expense** | **(5,196)** | **(2,967)** |
| **Net interest income** | **(903)** | **(361)** |

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

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

| | 2005 US$M | 2004 US$M |
|---|---|---|
| Commissions from lending business | | |
| Investment and portfolio management fees | 3 | - |
| Commissions and fees from fiduciary activities | | |
| Underwriting fees | 302 | 222 |
| Brokerage fees | 835 | 701 |
| Merger and acquisition fees | 256 | 217 |
| Fees for other customer services | 15 | 14 |
| **Commission and fee income** | **1,411** | **1,154** |
| Commissions from lending business | | |
| Investment and portfolio management fees | (1) | (2) |
| Commissions and fees from fiduciary activities | | |
| Brokerage fees | (35) | (54) |
| Fees for other customer services | (3) | - |
| **Commission and fee expense** | **(39)** | **(56)** |
| **Net Commissions and fees** | **1,372** | **1,098** |

The following table sets forth the details of other revenues:

| | 2005 US$M | 2004 US$M |
|---|---|---|
| Income/(loss) from non-marketable equity securities | - | 13 |
| Other | (54) | (56) |
| **Other revenues** | **(54)** | **(43)** |

**5. Non-Interest Revenues and Expenses (continued)**

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

| | 2005 US$M | 2004 US$M |
|---|---|---|
| Salaries and bonuses | 1,936 | 1,309 |
| Social security | 231 | 190 |
| Pension cost | 58 | 21 |
| Other | 50 | (20) |
| **Compensation and benefits** | **2,275** | **1,500** |

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

The following table sets forth the details of other expenses:

| | 2005 US$M | 2004 US$M |
|---|---|---|
| Occupancy expenses | 151 | 155 |
| IT, machinery, etc | 132 | 112 |
| Depreciation expenses | 8 | 10 |
| Provisions and losses | 44 | 8 |
| Commission expenses | 306 | 268 |
| Travel and entertainment | 82 | 75 |
| Audit fees | 2 | 3 |
| Professional services | 214 | 175 |
| Other | 70 | 93 |
| Expenses receivable from other Group companies | (344) | (534) |
| **Other expenses** | **665** | **365** |

The Company incurs expenses on behalf of other Group companies. These are subsequently recharged to the relevant companies through 'Expenses receivable from other Group companies'.

**6. Trading Activities**

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

| | 2005 US$M | 2004 US$M |
|---|---|---|
| Interest rate products | 307 | (71) |
| Equity/index-related products | 600 | 277 |
| Foreign exchange products | 91 | 149 |
| Other | (2) | 12 |
| **Trading revenues** | **996** | **367** |
| Interest and dividend income on trading assets | 2,547 | 1,730 |
| Interest expense on trading liabilities | (1,653) | (1,161) |
| **Trading interest income, net** | **894** | **569** |
| **Total trading revenues** | **1,890** | **936** |

For the year ended 31 December 2005, the impact to the profit or loss relating to financial instruments designated as held at fair value through profit and loss was a charge of US$2M.

**6. Trading Activities (continued)**

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

Of the financial instruments designated at fair value through the profit and loss, the structured repurchase agreements were elected because they are managed on a fair value basis.

| | 2005 US$M | 2004 US$M |
|---|---|---|
| **Trading assets** | | |
| Debt instruments | 25,161 | 26,332 |
| Equity instruments | 23,155 | 17,201 |
| Positive replacement values of derivative trading positions | 11,046 | 4,816 |
| **Total trading assets** | **59,362** | **48,349** |

| | 2005 US$M | 2004 US$M |
|---|---|---|
| **Financial assets designated as at fair value through profit or loss** | | |
| Debt instruments | | |
| Structured repurchase agreements | 790 | - |
| **Total financial assets designated as at fair value through profit or loss** | **790** | - |

For financial assets designated as at fair value, the maximum fair value exposure to credit risk as at 31 December 2005 is US$790M, which is fully collateralised. 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 2005 was a US$5M debit to the income statement. The changes in fair value are mainly due to movements in market risk.

| | 2005 US$M | 2004 US$M |
|---|---|---|
| **Trading liabilities** | | |
| Debt instruments | (24,019) | (16,945) |
| Equity instruments | (8,547) | (5,351) |
| Negative replacement values of derivative trading positions | (13,763) | (5,658) |
| **Total trading liabilities** | **(46,329)** | **(27,954)** |

| | 2005 US$M | 2004 US$M |
|---|---|---|
| **Financial liabilities designated as at fair value through profit or loss** | | |
| Debt instruments | | |
| Structured repurchase agreements | 284 | - |
| **Total financial assets designated as at fair value through profit or loss** | **284** | - |

For financial liabilities designated as at fair value, the maximum fair value exposure to credit risk as at 31 December 2005 is US$284M, which is fully collateralised. 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 liabilities designated as at fair value during the period ended 31 December 2005 was a US$3M debit to the income statement. The changes in fair value are mainly due to movements in market risk.

*The comparative figures for 2004 shown above are based on UK GAAP (see Note 2 (c)). The changes to the accounting policy as of 1 January 2005 are disclosed in Note 34.*

## 7. Income Tax Expense

| | 2005<br>US$M | 2004<br>US$M |
|---|---|---|
| **Current tax** | | |
| Current tax on profits of the period | (14) | (5) |
| Adjustments in respect of previous periods | 4 | - |
| **Total current tax** | **(10)** | **(5)** |
| **Deferred tax** | | |
| Origination and reversal of temporary differences | 139 | 37 |
| Adjustments in respect of previous periods | 10 | 5 |
| **Total deferred tax** | **149** | **42** |
| **Income tax credit** | **139** | **37** |

Current tax of US$nil (2004 : US$nil) and deferred tax of US$nil (2004: US$nil) was credited directly to equity. The total deferred tax credited to equity on transition to IAS of US$71m arose on non IAS32/39 items (US$70M) and US$1m arose on IAS 32/39 items.

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% (2004: 30%) to the actual income tax expense:

| | 2005<br>US$M | 2004<br>US$M |
|---|---|---|
| Income tax credit computed at the statutory tax rate | 191 | 71 |
| Increase/(decrease) in income taxes resulting from: | | |
| Other non-deductible expenses | (59) | - |
| Unrelievable foreign tax | (7) | (2) |
| Adjustments to current tax in respect of previous periods | 4 | - |
| Adjustments to deferred tax in respect of previous periods | 10 | 5 |
| Group relief surrendered for nil consideration | - | (37) |
| **Income tax credit** | **139** | **37** |

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

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

| | 2005<br>US$M | 2004<br>US$M |
|---|---|---|
| Securities purchased under resale agreements and securities borrowing transactions | 93,675 | 48,983 |
| Deposits paid for securities borrowed | 62,322 | 51,920 |
| **Total** | **155,997** | **100,903** |
| **Of which due in more than 1 year** | **34,268** | **21,803** |

**8. Securities purchased and sold under resale agreements and securities borrowing transactions (continued)**

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

| | 2005<br>US$M | 2004<br>US$M |
|---|---|---|
| Securities sold under resale agreements and securities borrowing transactions | 103,843 | 59,051 |
| Deposits received for securities lent | 18,716 | 7,346 |
| **Total** | **122,559** | **66,397** |
| **Of which due in more than 1 year** | **22,987** | **11,623** |

The maximum month-end amount of securities purchased under agreements to resell was US$174,338M and US$112,192M in 2005 and 2004 respectively. The average amount of securities purchased under agreements to resell during the year was US$157,064M and US$93,215M in 2005 and 2004 respectively.

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 Company monitors the fair value of securities received or delivered. For reverse repurchase agreements, the Company 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 Company with the right to liquidate the collateral held. In the Company's normal course of business, substantially all of the collateral received that may be sold or re-pledged has been sold or re-pledged as at 31 December 2005 and 2004 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 Company receives cash or securities collateral in an amount generally in excess of the market value of securities lent. The Company monitors the market value of securities borrowed and securities lent on a daily basis and obtains additional collateral as necessary.

*The comparative figures for 2004 shown above are based on UK GAAP (see Note 2 (c)). The changes to the accounting policy as of 1 January 2005 are disclosed in Note 34.*

## 9. Loans

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

| | 2005<br>US$M | 2004<br>US$M |
|---|---|---|
| Commercial | 15 | - |
| **Foreign** | **15** | **-** |
| **Loans, gross** | **15** | **-** |
| Allowance for loan losses | - | - |
| **Total loans, net** | **15** | **-** |
| **Of which due in more than 1 year** | **15** | **-** |

## 10. Other Investments

The following table summarises details of other investments:

| | 2005<br>US$M | 2004<br>US$M |
|---|---|---|
| Non-marketable equity securities | 9 | 8 |
| **Total other investments** | **9** | **8** |

This item includes investments in non-marketable exchanges for which the Company has neither significant influence nor control over the investee. The fair value of the these investments is disclosed in Note 29.

*The comparative figures for 2004 shown above are based on UK GAAP (see Note 2 (c)). The changes to the accounting policy as of 1 January 2005 are disclosed in Note 34.*

## 11. Deferred Taxes

Deferred taxes are calculated on all temporary differences under the liability method using an expected tax rate of 30% (2004: 30%).

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

| | 2005<br>US$M | 2004<br>US$M |
|---|---|---|
| At 1 January | 168 | 112 |
| Arising on non IAS 32/39 items | 70 | 82 |
| Restated balance under IFRS (excluding IAS 32/39) | 238 | 194 |
| Arising on IAS 32/39 items - credited to equity during the period | 1 | - |
| Restated opening balance under IFRS (including IAS 32/39) | 239 | 194 |
| Credit to income for the year | 149 | 42 |
| Exchange differences | (1) | 2 |
| **At 31 December** | **387** | **238** |

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

**11. Deferred Taxes (continued)**

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

**Deferred tax liabilities**

| | 2005<br>US$M | 2004<br>US$M |
|---|---|---|
| Accelerated tax depreciation | (11) | (11) |
| **At end of year** | **(11)** | **(11)** |

**Deferred tax assets**

| | 2005<br>US$M | 2004<br>US$M |
|---|---|---|
| Pensions and other post retirement benefits | 57 | 65 |
| Derivative financial instruments | 1 | - |
| Stock based compensation | 304 | 168 |
| Other provisions | 9 | 6 |
| Other short term temporary differences | 27 | 10 |
| **At end of year** | **398** | **249** |

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

| | 2005<br>US$M | 2004<br>US$M |
|---|---|---|
| Pensions and other post retirement benefits | 9 | 8 |
| Decelerated tax depreciation | - | (4) |
| Stock based compensation | (136) | (48) |
| Other provisions | (3) | 3 |
| Other short term temporary differences | (19) | (1) |
| **At end of year** | **(149)** | **(42)** |

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 Company has tax losses of US$86M (2004: US$102M) to carry forward against future taxable income and these have no expiry date. The benefit of the tax losses has not been recognised in these financial statements due to the uncertainty of their recoverability.

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 related 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 Company 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 Company will receive full consideration for any group relief surrendered.

## 12. Other Assets

| | 2005<br>US$M | 2004<br>US$M |
|---|---|---|
| Positive replacement values of derivative instruments (held for hedging purposes) | 1 | 20 |
| Brokerage receivables (Note 13) | 26,979 | 16,701 |
| Interest and fees receivable | 1,343 | 1,083 |
| Prepaid expenses | 36 | 19 |
| Other receivables from customers | 1,805 | 1,037 |
| Other | 107 | 82 |
| **Total** | **30,271** | **18,942** |

*The comparative figures for 2004 shown above are based on UK GAAP (see Note 2 (c)). The changes to the accounting policy as of 1 January 2005 are disclosed in Note 34.*

## 13. Brokerage Receivables and Brokerage Payables

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

| | 2005<br>US$M | 2004<br>US$M |
|---|---|---|
| Due from customers | 13,476 | 8,830 |
| Due from banks, brokers and dealers | 13,503 | 7,871 |
| **Total brokerage receivables** | **26,979** | **16,701** |

| | 2005<br>US$M | 2004<br>US$M |
|---|---|---|
| Due to customers | (6,601) | (4,359) |
| Due to banks, brokers and dealers | (10,248) | (6,098) |
| **Total brokerage payables** | **(16,849)** | **(10,457)** |

## 14. Investments in Associated Undertakings

| | 2005<br>US$M | 2004<br>US$M |
|---|---|---|
| Beginning of year | - | 38 |
| Repayment of capital | - | (38) |
| End of year | - | - |

## 15. Goodwill

| | 2005 US$M | 2004 US$M |
|---|---|---|
| Opening book amount | 7 | 7 |
| Exchange differences | (1) | - |
| **Closing net book amount** | **6** | **7** |

## 16. Property, Plant and Equipment

| | 2005 | | | | |
|---|---|---|---|---|---|
| | Long Leasehold Land and Buildings US$M | Leasehold Improvements US$M | Computer Equipment US$M | Office Equipment US$M | Total US$M |
| Cost: | | | | | |
| Cost as at 1 January 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 |
| Depreciation: | | | | | |
| 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 |
| Net book value as at 31 December 2005 | 45 | 16 | 1 | 2 | 64 |
| Net book value as at 31 December 2004 | 46 | 22 | 1 | 3 | 72 |

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

No interest has been capitalised within Property, Plant and Equipment (2004:US$nil).

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

| | 2004 | | | | |
|---|---|---|---|---|---|
| | Long Leasehold Land and Buildings | Leasehold Improvements | Computer Equipment | Office Equipment | Total |
| | US$M | US$M | US$M | US$M | US$M |
| Cost: | | | | | |
| Cost as at 1 January 2004 | 52 | 41 | 6 | 6 | 105 |
| Additions | - | 2 | 3 | - | 5 |
| Disposals | - | - | - | - | - |
| Other movements | - | 3 | - | 2 | 5 |
| Cost as at 31 December 2004 | 52 | 46 | 9 | 8 | 115 |
| Depreciation: | | | | | |
| Depreciation as at 1 January 2004 | 5 | 20 | 5 | 4 | 34 |
| Charge for the period | 1 | 5 | 3 | 1 | 10 |
| Disposals | - | - | - | - | - |
| Other movements | - | (1) | - | - | (1) |
| Depreciation as at 31 December 2004 | 6 | 24 | 8 | 5 | 43 |
| Net book value as at 31 December 2004 | 46 | 22 | 1 | 3 | 72 |
| Net book value as at 31 December 2003 | 47 | 21 | 1 | 2 | 71 |

## 17. Deposits

| | 2005 US$M | 2004 US$M |
|---|---|---|
| Non-interest bearing demand deposits | 14 | 2 |
| Interest-bearing demand deposits | 188 | 128 |
| Time deposits | 840 | 132 |
| **Total deposits** | **1,042** | **262** |

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

| | 2005 US$M | 2004 US$M |
|---|---|---|
| Up to 1 month | 741 | 17 |
| From 1 month to 3 months | 54 | 115 |
| From 3 months to 1 year | - | - |
| From 1 year to 5 years | 45 | - |
| From 5 years and over | - | - |
| **Total time deposits** | **840** | **132** |

Deposits for the Company include US$253M (2004:US$215M) due to fellow subsidiary undertakings.

*The comparative figures for 2004 shown above are based on UK GAAP (see Note 2 (c)). The changes to the accounting policy as of 1 January 2005 are disclosed in Note 34.*

## 18. Short Term Borrowings

| | 2005 US$M | 2004 US$M |
|---|---|---|
| Interest-bearing brokerage borrowings | 55,393 | 59,952 |
| **Total short term borrowings** | **55,393** | **59,952** |

As at 31 December 2005, the remaining maturities for short term borrowings were as follows:

| | 2005 US$M | 2004 US$M |
|---|---|---|
| Up to 1 month | 49,927 | 59,204 |
| From 1 month to 3 months | 5,464 | 738 |
| From 3 months to 1 year | 2 | 10 |
| **Total short term borrowings deposits** | **55,393** | **59,952** |

Short term borrowings for the Company include US$55,391M (2004:US$59,849M) due to fellow subsidiary undertakings.

*The comparative figures for 2004 shown above are based on UK GAAP (see Note 2 (c)). The changes to the accounting policy as of 1 January 2005 are disclosed in Note 34.*

**19. Long Term Debt**

| | 2005 | 2004 |
|---|---|---|
| | US$M | US$M |
| Subordinated debt | 1,674 | 1,524 |
| **Total long term debt** | **1,674** | **1,524** |

At 31 December 2005 subordinated loan capital comprises an amount of US$1,674M advanced by Credit Suisse First Boston Finance BV, a fellow subsidiary undertaking, 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$150M additional subordinated loan capital from Credit Suisse First Boston Finance BV (2004: the Company repaid US$300M to Credit Suisse First Boston Finance BV).

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.

*The comparative figures for 2004 shown above are based on UK GAAP (see Note 2 (c)). The changes to the accounting policy as of 1 January 2005 are disclosed in Note 34.*

**20. Other Liabilities**

| | 2005 | 2004 |
|---|---|---|
| | US$M | US$M |
| Negative replacement values of derivative instruments (held for hedging purposes) | 23 | 1 |
| Brokerage payables (Note 13) | 16,849 | 10,457 |
| Interest and fees payable | 1,652 | 1,427 |
| Provisions (Note 21) | 68 | 48 |
| OTC cash collateral | 3,266 | 2,220 |
| Compensation accruals | 1,475 | 966 |
| Other | 165 | 85 |
| **Total Other Liabilities** | **23,498** | **15,204** |

*The comparative figures for 2004 shown above are based on UK GAAP (see Note 2 (c)). The changes to the accounting policy as of 1 January 2005 are disclosed in Note 34.*

**21. Provisions**

| | Property US$M | Litigation US$M | Total 2005 US$M | Total 2004 US$M |
|---|---|---|---|---|
| Balance at beginning of year | **32** | **16** | **48** | **61** |
| Increase in provisions | 5 | 50 | 55 | 22 |
| Released or utilised during the year | (16) | (17) | (33) | (35) |
| Currency translation difference | (2) | (0) | (2) | (0) |
| Balance at the end of the year | **19** | **49** | **68** | **48** |
| Of which due in more than 1 year | **9** | **-** | **9** | - |

Vacant property provision has been raised for costs associated with unoccupied office space. Provisions have also been made for potential litigation and legal costs.

**22. Called-up Share Capital**

| **Authorised:** | 2005 US$M | 2004 US$M |
|---|---|---|
| **Equity** | | |
| Ordinary voting shares of US$1 each | 50 | 50 |

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

| | 2005 US$M | 2004 US$M |
|---|---|---|
| 27,300,000 ordinary voting shares of US$1 each | 27 | 27 |
| Capital contribution | 3,248 | 2,848 |
| **Total called-up share capital** | **3,275** | **2,875** |

The holders of Ordinary Shares carry voting rights and the right to receive dividends.

**23. Stock awards**

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

**23. Stock awards (continued)**

Total compensation expense for stock awards payments recognised during 2005 and 2004 was US$761M and US$176M respectively. The total stock award liability recorded as at 31 December 2005 was US$807M (2004: US$332M). The fair value used to calculate the stock award liability was the closing Credit Suisse Group share price as at 31 December 2005 CHF67 (2004: CHF47.80). The average weighted fair value of awards granted in 2005 was CHF49.08 (2004: CHF47.35). The intrinsic value of vested share based awards outstanding as at year end was US$239.5M (2004: US$177.2M).

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

| | 2005<br>millions | 2004<br>millions |
|---|---|---|
| **Stock excluding PIP units** | | |
| As at 1 January | 8.48 | 5.34 |
| Granted | 4.77 | 4.62 |
| Delivered | (4.52) | (0.85) |
| Forfeited | (0.70) | (0.64) |
| As at 31 December | 8.03 | 8.47 |
| **PIP Units** | | |
| As at 1 January | - | - |
| Granted | 2.17 | - |
| Delivered | - | - |
| Forfeited | (0.09) | - |
| As at 31 December | 2.08 | - |

**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 Group has no legal or constructive obligation to repurchase or settle the options in cash.

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

| | **2005** | **2004** |
|---|---|---|
| At 1 January | 6,177,882 | 6,571,443 |
| Granted | 62,274 | 20,000 |
| Exercised | (668,048) | (138,684) |
| Forfeited | (199,101) | (274,877) |
| Expired | 0 | 0 |
| At 31 December | **5,373,007** | **6,177,882** |

Share options were granted on 22 January 2005 at an exercise price of CHF48.05 (16 January 2004: at an exercise price CHF47.75 per share) and expire on 22 January 2015 (prior year – 16 January 2014). For share options exercised during 2005, the weighted average share price at the date of exercise was CHF53.92 (2004: CHF44.62). The intrinsic value of vested options outstanding as at year end was US$69.01M (2004: US$28.1M).

## 23. Stock awards (continued)

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

| | Exercise Price CHF | 31 December 2005 | 31 December 2004 |
|---|---|---|---|
| Jan 2001 Options | CHF 84.75 | 992,036 | 1,003,112 |
| Jan 2002 Options | CHF 65.75 | 1,510,360 | 1,566,446 |
| Dec 2002 Options | CHF 34.10 | 798,168 | 1,016,209 |
| Jan 2003 Options | CHF 30.60 | 1,483,717 | 2,020,528 |
| Sep 2003 Options | CHF 50.55 | 507,454 | 551,587 |
| Jan 2004 Options | CHF47.75 | 18,998 | 20,000 |
| Jan 2005 Options | CHF48.05 | 62,274 | |
| | | 5,373,007 | 6,177,882 |

The fair value of options granted during the period determined using the Black-Scholes valuation model was US$80 (2004: US$60). The significant inputs into the model were share prices of US$34.7 (2004: US$28) at the grant date, exercise price shown above, standard deviation of expected share price returns of 30% (2004: 27%), option life disclosed above, and annual risk free interest rate of 5% (2004: 4%). 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.

## 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. These schemes are valued by independent actuaries every three years using the projected unit credit method. A full actuarial valuation is completed every three years and updated to 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%.

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

| | Defined benefit pension plans | |
|---|---|---|
| | 2005 US$M | 2004 US$M |
| Service costs on benefit obligation | 8 | 12 |
| Interest costs on benefit obligation | 51 | 43 |
| Expected return on plan assets | (51) | (43) |
| Amortisation of: | | |
| prior service cost | - | - |
| unrecognised losses | 1 | - |
| **Net periodic pension costs** | **9** | **12** |
| Settlement gains | - | - |
| Curtailment losses/(gains) | - | - |
| **Total pension costs** | **9** | **12** |

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

The following table shows the changes in the projected benefit obligation and the fair value of plan assets during 2005 and 2004, 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 2005 and 2004 respectively:

| | Defined benefit pension plans | |
|---|---|---|
| | 2005 | 2004 |
| | US$M | US$M |
| Projected benefit obligation – beginning of the measurement period | 985 | 740 |
| Benefit obligation of countries added in current year | 5 | - |
| Plan participant contributions | - | - |
| Service cost | 8 | 12 |
| Interest cost | 51 | 43 |
| Plan amendments | - | - |
| Settlements | - | - |
| Curtailments | - | - |
| Actuarial losses | 143 | 129 |
| Benefit payments | (8) | (9) |
| Exchange rate gains / (losses) | (112) | 70 |
| **Projected benefit obligation – end of the measurement period** | **1,072** | **985** |
| | | |
| Fair value of plan assets – beginning of the measurement period | 755 | 518 |
| Assets of countries added in current year | 3 | - |
| Actual return on plan assets | 131 | 66 |
| Contributions | 8 | 128 |
| Plan participant contributions | - | - |
| Benefit payments | (8) | (9) |
| Exchange rate gains / (losses) | (85) | 52 |
| **Fair value of plan assets – end of the measurement period** | **804** | **755** |
| | | |
| **Total amount recognised 31 December** | | |
| Funded status of the plan | (268) | (230) |
| Unrecognised | | |
| Net transition asset | - | - |
| Prior service cost | - | - |
| Net actuarial losses | 167 | 105 |
| Exchange rate gains / (losses) | (8) | 5 |
| **Net amount recognised 31 December** | **(109)** | **(120)** |

In 2006 the Company expects to contribute US$7.8M to the defined benefit pension plans.

At 31 December 2005 and 2004 the pension fund plan assets hold no material amounts of Credit Suisse Group debt and equity securities.

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

Movement in the liability recognised in the balance sheet:

| | 2005<br>US$M | 2004<br>US$M |
|---|---|---|
| At 1 January | (120) | (222) |
| Exchange difference | 12 | (14) |
| Total expenses (as above) | (9) | (12) |
| Contributions paid | 8 | 128 |
| **At 31 December** | (109) | (120) |

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

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

**Plan assets and investment strategy**

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

| 31 December | 2005<br>% | 2004<br>% |
|---|---|---|
| Equity securities | 67.7 | 64.9 |
| Debt securities | 18.5 | 20.2 |
| Real estate | | |
| Alternative investments | 13.3 | 14.9 |
| Insurance | | |
| Liquidity | 0.5 | |
| **Total** | **100.0** | **100.0** |

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

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 intent 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 Swiss and non-Swiss stocks as well as between growth, value and small and large capitalisation stocks. Other assets, such as real estate, private equity and 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:

| 31 December | 2005 | 2004 |
|---|---|---|
| | % | % |
| Equity securities | 65.7 | 65.8 |
| Debt securities | 19.6 | 19.6 |
| Real estate | - | - |
| Alternative investments | 14.7 | - |
| Insurance | - | - |
| Liquidity | - | 14.6 |
| **Total** | **100.0** | **100.0** |

**Defined Contribution Pension Plans**

The Company also contributes to various defined contribution pensions primarily in the United Kingdom. The contributions in these plans during 2005 and 2004 were US$23M and US$42M 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 Company is involved in significant financing and other transactions, and has significant related party balances, with subsidiaries and affiliates of Credit Suisse Group. The Company generally enters into these transactions in the ordinary course of business and these transactions are on market terms that could be obtained from unrelated parties.

**25. Related Party Transactions (continued)**

**a) Related party assets and liabilities**

| | 2005<br>US$M<br>Fellow Group Companies | 2004<br>US$M<br>Fellow Group Companies |
|---|---|---|
| **Assets** | | |
| Cash and due from banks | 1,913 | 2,526 |
| Interest-bearing deposits with banks | 652 | 251 |
| Securities purchased under resale agreements and securities borrowing transactions | 55,986 | 39,947 |
| Trading assets | 5,122 | 752 |
| Other assets | 6,075 | 2,648 |
| **Total assets** | **69,748** | **46,124** |
| **Liabilities** | | |
| Deposits | 253 | 215 |
| Securities sold under resale agreements and securities lending transactions | 26,996 | 7,582 |
| Trading liabilities | 5,399 | 761 |
| Short term borrowings | 55,391 | 59,849 |
| Long term debt | 1,674 | 1,524 |
| Other liabilities | 3,151 | 1,770 |
| **Total liabilities** | **92,864** | **71,701** |

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

| **Off balance sheet items** | 2005<br>US$M<br>Fellow Group Companies | 2004<br>US$M<br>Fellow Group Companies |
|---|---|---|
| Guarantees | 3,487 | 2,876 |
| Derivatives notional amounts | 185,288 | 99,686 |
| Receivables for securities purchased under resale agreements and securities borrowing transactions | 34,718 | 23,951 |
| Obligations to return securities sold under resale agreements and securities lending transactions | (66,559) | (57,343) |
| **Total** | **156,934** | **69,170** |

**25. Related Party Transactions (continued)**

**c) Related party revenues and expenses**

| | 2005<br>US$M<br>Fellow Group<br>Companies | 2004<br>US$M<br>Fellow Group<br>Companies |
|---|---|---|
| Interest and dividend income | 1,562 | 558 |
| Interest expense | (2,569) | (1,286) |
| **Net interest income** | **(1,007)** | **(728)** |
| Net commissions and fees | 132 | 146 |
| Trading revenues | - | (1) |
| Other revenues | - | 4 |
| **Total non-interest revenues** | **132** | **149** |
| **Total operating expenses** | **(626)** | **(1,032)** |

**d) Remuneration**

The Credit Suisse Group International Share Plan provides for the grant of equity based awards to employees based on Credit Suisse Group shares pursuant to which employees of the Company 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**

| | 2005<br>US$M | 2004<br>US$M<br>(as restated [1]) |
|---|---|---|
| Emoluments | 8 | 7 |
| Amounts receivable under long term incentive schemes | 9 | 4 |
| Compensation for loss of office | 1 | 1 |
| Company contributions to money purchase pension schemes | 1 | - |
| | 19 | 12 |

Under IFRS the aggregate value of compensation provided in the accounts for 2005 for Directors was US$47,085,783 (2004: US$14,061,687).

Included in the amounts receivable under long term incentive schemes for Directors is US$1,240,028 (2004: US$275,439 as restated) relating to cash schemes.

The aggregate of emoluments and amounts receivable under long term incentive schemes of the highest paid director was $3,439,851 (2004: US$2,287,664). 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$650 (2004: US$16,944).

[1] Cash payments received under long term incentive schemes have been included under *"Amounts receivable under long term incentive schemes"*. In prior years these were included in *"Emoluments"*.

**25. Related Party Transactions (continued)**

| | Number of Directors 2005 | Number of Directors 2004 |
|---|---|---|
| Retirement benefits are accruing to the following number of directors under: | | |
| Money purchase schemes | 7 | 4 |
| Defined benefit schemes | 1 | - |
| Both money purchase and defined benefit | 4 | 5 |
| Total | 12 | 9 |
| The number of directors who exercised share options | 1 | 0 |
| Directors in respect of whom services were received or receivable under long term incentive schemes | 13 | 8 |

**Remuneration of Key Management Personnel**

| | 2005 US$M | 2004 US$M |
|---|---|---|
| Emoluments | 17 | 20 |
| Amounts receivable under long term incentive schemes | 131 | 15 |
| Company contributions to money purchase pension schemes | 4 | 2 |
| | 152 | 37 |

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 (2004: $nil).

**f) Liabilities due to pension funds**

Liabilities due to own pension funds as at 31 December 2005 and 2004 of US$15.4M and US$12.1M respectively are reflected in various liability accounts in the Company's balance sheet.

## 26. Employees

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

| | 2005<br>Number | 2004<br>Number |
|---|---|---|
| Front office | 1,635 | 1,524 |
| Back office | 3,180 | 3,065 |
| | 4,815 | 4,589 |

The Company 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 Company's most frequently used freestanding derivative products, entered into for trading and risk management purposes, include interest rate, cross currency and credit default swaps, interest rate and foreign currency options, foreign exchange forward contracts, and foreign currency and interest rate futures.

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

i. Trading activities;
ii. A risk management transaction that does not qualify as a hedge under accounting standards (referred to as an economic hedge);
iii. A hedge of the fair value of a recognised asset or liability;
iv. 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
v. A hedge of a net investment in a foreign operation.

### Trading Activities

The Company 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 Company's derivatives held as at 31 December 2005 were used for trading activities.

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

**Cash Flow Hedges**

The Company uses cash flow hedging strategies to mitigate the risk of variability of cash flows on loans, deposits and other debt obligations by using interest rate swaps to convert variable rate assets or liabilities to fixed rates. The Company also uses cross currency swaps to convert foreign currency denominated fixed and floating rate assets or liabilities to fixed rate USD assets or liabilities. Further, the Company uses derivatives to hedge the cash flows associated with forecasted transactions.

The maximum length of time over which the Company 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:

| | 2005 | 2004 |
|---|---|---|
| | US$M | US$M |
| Expected reclassification from Other Reserves into earnings during the next 12 months | - | 3 |
| Fair value of open derivative transactions used as cash flow hedges | (16) | 18 |

**Net Investment Hedges**

The Company 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 following table sets forth details of net investment hedges:

| | 2005 | 2004 |
|---|---|---|
| | US$M | US$M |
| Net asset hedges included in Other Reserves | (6) | 1 |

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

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

| 31 December 2005 | 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 | - | - | - |
| **Interest rate products** | **577,170** | **3,413** | **2,773** | **-** | **-** | **-** |
| 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 | - | - | - |
| **Foreign Exchange Products** | **212,618** | **5,794** | **5,459** | **323** | **1** | **23** |
| 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 | - | - | - |
| **Equity/indexed-related products** | **283,239** | **1,765** | **5,479** | **-** | **-** | **-** |
| Credit Swaps | 10,412 | 74 | 52 | - | - | - |
| **Other products** | **10,412** | **74** | **52** | **-** | **-** | **-** |
| **Total derivative instruments** | **1,083,439** | **11,046** | **13,763** | **323** | **1** | **23** |

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

| **31 December 2004** | **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 | 303 | 1 | 1 | - | - | - |
| Swaps | 85,248 | 1,810 | 2,038 | - | - | - |
| Options bought and sold (OTC) | 8,472 | 98 | 117 | - | - | - |
| Futures | 27,275 | - | - | - | - | - |
| Options bought and sold (traded) | 482,877 | 168 | 169 | - | - | - |
| **Interest rate products** | **604,175** | **2,077** | **2,325** | **-** | **-** | **-** |
| Forward rate agreements | 63,747 | 1,365 | 1,549 | 289 | 20 | 1 |
| Swaps | 18,349 | 2,124 | 984 | - | - | - |
| Options bought and sold (OTC) | 11,564 | 158 | 132 | - | - | - |
| **Foreign Exchange Products** | **93,660** | **3,647** | **2,665** | **289** | **20** | **1** |
| Options bought and sold (OTC) | 6,393 | 27 | 56 | - | - | - |
| Swaps | 31,023 | 1,507 | 3,096 | | | |
| Futures | 8,027 | - | - | - | - | - |
| Options bought and sold (traded) | 1,295 | 5 | - | - | - | - |
| **Equity/indexed-related products** | **46,738** | **1,539** | **3,152** | **-** | **-** | **-** |
| Credit Swaps | 5,873 | 41 | - | - | - | - |
| **Other products** | **5,873** | **41** | **-** | **-** | **-** | **-** |
| **Total derivative instruments** | **750,446** | **7,304** | **8,142** | **289** | **20** | **1** |

| | **2005** | | **2004** | |
|---|---|---|---|---|
| | Positive replacement value | Negative replacement value | Positive replacement value | Negative replacement value |
| | **US$M** | **US$M** | **US$M** | **US$M** |
| Replacement values (trading) before netting | 11,046 | 13,763 | 7,304 | 8,142 |
| Replacement values (trading) after netting | 11,046 | 13,763 | 4,816 | 5,658 |

*The comparative figures for 2004 shown above are based on UK GAAP (see Note 2 (c)). The changes to the accounting policy as of 1 January 2005 are disclosed in Note 34.*

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

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

| | Gross positive replacement value | | | |
|---|---|---|---|---|
| | Remaining life | | | **2005** |
| | <1 year | 1-5 years | >5 years | **Total** |
| | US$M | US$M | US$M | **US$M** |
| Interest rate instruments | 216 | 1,180 | 2,017 | **3,413** |
| Foreign exchange | 2,828 | 2,536 | 430 | **5,794** |
| Precious metals | - | - | - | **-** |
| Equities/indices | 143 | 1,601 | 21 | **1,765** |
| Other | - | 74 | - | **74** |
| **Total** | **3,187** | **5,391** | **2,468** | **11,046** |

**28. Guarantees and Commitments**

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

| **31 December 2005** | Maturity <1 year | Maturity 1-3 years | Maturity 3-5 years | Maturity >5 years | Total gross amount | Total net amount (1) | Collateral received | Carrying value |
|---|---|---|---|---|---|---|---|---|
| | US$M | US$M | US$M | US$M | US$M | US$M | US$M | US$M |
| **Total guarantees** | **8,423** | **540** | **-** | **30** | **8,993** | **8,993** | **-** | **8,993** |

| **31 December 2004** | Maturity <1 year | Maturity 1-3 years | Maturity 3-5 years | Maturity >5 years | Total gross amount | Total net amount (1) | Collateral received | Carrying value |
|---|---|---|---|---|---|---|---|---|
| | US$M | US$M | US$M | US$M | US$M | US$M | US$M | US$M |
| **Total guarantees** | **3,327** | **307** | **356** | **35** | **4,025** | **4,025** | **-** | **4,025** |

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

All of the above 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 Company has concluded that there is no basis to assume that these counterparties hold the underlying instruments related to the derivative contracts, and therefore does not report such contracts as guarantees.

The Company 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 Company carries all derivatives at fair value in the balance sheet.

## 28. Guarantees and Commitments (continued)

### Commitments

In the ordinary course of business, the Company enters 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 held by that company on behalf of the Company, and over all rights, claims and interests in the relevant underlying securities. At 31 December 2005 the Company held ADRs to the value of US$703.9M (2004: US$581.7m).

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 2005 the Company had open trades of US$1,876.4M with Euroclear (2004: US$1,209m).

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 2005 the Company held no uncollateralised positions with Euroclear (2004: 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 2005 the Company had open trades of US$15.7M with HSBC Bank Plc (2004: US$7.1M).

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 2005 the Company had open trades of US$2,293.4M with Citibank (2004: US$2,993.4M).

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 2005 the Company had open trades of US$519.8M with CREST (2004: US$736.9M).

The Company has granted to The Bank of New York a charge over all securities held as security for payment and discharge of secured obligations. At 31 December 2005 the Company had no additional liabilities other than those disclosed in Note 29 (2004: 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 2005 (2004: US$nil).

The Company had underwriting commitments of US$2,371M at 31 December 2005 (2004: US$5,455M).

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

The Company guaranteed to Glaxosmithkline Export Ltd all of Credit Suisse London Branch's obligations under a put option agreement totaling US$nil (2004: US$964.4M).

The Company guaranteed to National Americas Holdings Limited Credit Suisse London Branch's obligations under a put option agreement totaling US$nil (2004: US$491.8M).

**Lease Commitments**

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

| | **2005** | **2004** |
|---|---|---|
| | US$M | US$M |
| Up to 1 year | 34 | 46 |
| From 1 year to 2 years | 33 | 35 |
| From 2 years to 3 years | 37 | 26 |
| From 3 years to 4 years | 33 | 23 |
| From 5 years and over | 1,669 | 1,821 |
| **Future operating lease commitments** | **1,806** | **1,951** |
| Less minimum non-cancellable sublease rentals | (88) | (137) |
| **Total net future minimum lease commitments** | **1,718** | **1,814** |

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

| | **2005** | **2004** |
|---|---|---|
| | **US$M** | **US$M** |
| Minimum rentals | 41 | 42 |
| Sublease rental income | (12) | (12) |
| **Total net rental expenses** | 29 | 30 |

## 28. Guarantees and Commitments (continued)

### Other Commitments

The following table sets forth details of other commitments:

| 31 December 2005 | Maturity <1 year US$M | Maturity 1-3 years US$M | Maturity 3-5 years US$M | Maturity >5 years US$M | Total gross amount US$M | Total net amount US$M | Collateral received US$M |
|---|---|---|---|---|---|---|---|
| Forward reverse repurchase agreements | 2,096 | - | - | - | 2,096 | 2,096 | - |
| **Total other commitments** | **2,096** | **-** | **-** | **-** | **2,096** | **2,096** | **-** |

| 31 December 2004 | Maturity <1 year US$M | Maturity 1-3 years US$M | Maturity 3-5 years US$M | Maturity >5 years US$M | Total gross amount US$M | Total net amount US$M | Collateral received US$M |
|---|---|---|---|---|---|---|---|
| Forward reverse repurchase agreements | 6,051 | 51 | - | - | 6,102 | 6,102 | - |
| **Total other commitments** | **6,051** | **51** | **-** | **-** | **6,102** | **6,102** | **-** |

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. 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 Company's financial statements. All non-financial instruments such as lease transactions, fixed assets, equity method investments 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 reprice 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.

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

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, the fair value is calculated as follows: for deposit instruments with no stated maturity and those with original maturities of less than three months, the book value is assumed to approximate 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 Company could issue debt with a similar remaining maturity as at the balance sheet date.

| | 2005 | | 2004 | |
|---|---|---|---|---|
| | Book value US$M | Fair value US$M | Book value US$M | Fair value US$M |
| **Financial Assets** | | | | |
| Cash and cash equivalents | 3,897 | 3,897 | 3,135 | 3,135 |
| Interest-bearing deposits with banks | 655 | 655 | 300 | 300 |
| Securities purchased under resale agreements and securities borrowing transactions | 155,997 | 156,023 | 100,903 | 100,914 |
| Trading assets | 59,362 | 59,362 | 48,349 | 48,349 |
| Other financial assets held at fair value through profit and loss | 790 | 790 | - | - |
| Loans | 15 | 15 | - | - |
| Other investments | 9 | 9 | 8 | 8 |
| **Total assets** | **220,725** | **220,751** | **152,695** | **152,706** |
| **Liabilities** | | | | |
| Deposits | 1,042 | 1,042 | 262 | 262 |
| Securities sold under resale agreements and securities lending transactions | 122,559 | 122,583 | 66,397 | 66,408 |
| Trading liabilities | 46,329 | 46,329 | 27,954 | 27,954 |
| Other financial liabilities held at fair value through profit and loss | 284 | 284 | - | - |
| Short term borrowings | 55,393 | 55,393 | 59,952 | 59,952 |
| Long term debt | 1,674 | 1,674 | 1,524 | 1,524 |
| **Total liabilities** | **227,281** | **227,305** | **156,089** | **156,100** |

For the year ended 31 December 2005, the amount recognised in profit or loss for financial instruments estimated using a valuation technique and entity specific inputs was US$34M.

**30. 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** | **2005** | | **2004** | |
|---|---|---|---|---|
| | Carrying amount of asset | Associated Liability | Carrying amount of asset | Associated Liability |
| | US$M | US$M | US$M | US$M |
| Securities lending agreements | 18,624 | (16,217) | 15,449 | (11,082) |

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. 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.

**31. Assets Pledged or Assigned**

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

| | 2005<br>US$M | 2004<br>US$M |
|---|---|---|
| Book value of assets pledged and assigned as collateral | 36,521 | 32,593 |
| of which assets provided with the right to sell or repledge | 36,521 | 32,593 |
| Fair value of collateral received with the right to sell or repledge | 114,347 | 99,008 |
| of which sold or repledged | 97,807 | 83,070 |

As at 31 December 2005 and 2004, collateral was received in connection with resale agreements, securities borrowings and loans, derivative transactions and margined broker loans. As at these dates, a substantial portion of the collateral received by the Group had been sold or repledged in connection with repurchase agreements, securities sold, not yet purchased, securities borrowings and loans, pledges to clearing organisations, segregation requirement under securities laws and regulations, derivative transactions and bank loans.

**31. Assets Pledged or Assigned (continued)**

The following table shows other information:

| | 2005 US$M | 2004 US$M |
|---|---|---|
| Cash restricted under foreign banking regulations | - | - |
| UK banking cash reserves | 1,191 | 822 |
| Cash restricted under UK and foreign banking regulations | 1,191 | 822 |

**32. Financial Instruments Risk Position**

**a. Overview**

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

**i) 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. The Group's risk management framework is based on the following principles, which apply universally across all businesses and risk types.

- Protection of financial strength: Credit Suisse Group aims to control risk in order to limit the impact of potentially adverse events on the Group's capital and income. The Group's risk appetite is to be consistent with its financial resources.
- Protection of reputation: The value of the Credit Suisse Group franchise depends on the Group's reputation. Protecting a strong reputation is both fundamental and an overriding concern for all staff members.
- Risk transparency: Risk transparency is essential so that risks are well understood by senior management and can be balanced against business goals.
- Management accountability: The various businesses are organised into segments that own the comprehensive risks assumed through their operations. Management for each segment is responsible for the active management of their respective risk exposures and the return for the risks taken.
- Independent oversight: Risk management is a structured process to identify, measure, monitor and report risk. The risk management, controlling and legal and compliance functions operate independently of the front office to ensure the integrity of the risk and control processes. The risk management functions are responsible for implementing all relevant risk policies, developing tools to assist senior management to determine risk appetite and assessing the overall risk profile of the Group.

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

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

Risk management oversight at the Credit Suisse management levels as of 1 January 2006. This function was similarly organised during the year ending 2005.

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

Credit Suisse risk management committees as of 1 January 2006. This function was similarly organised during the year ending 2005.

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

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

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

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

**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 an economic risk capital model as a consistent and comprehensive risk management tool, which also forms an important element in the capital management and planning process and an element in the performance measurement process.

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

- Position risk ERC: the level of unexpected loss in economic value on the Group's portfolio of positions over a one-year horizon that is exceeded with a given, small probability (1% for risk management purposes; 0.03% for capital management purposes).
- Operational risk ERC: the level of loss resulting from inadequate or failed internal processes, people and systems or from external events over a one-year horizon that is exceeded with a small probability (0.03%). Estimating this type of ERC is inherently more subjective, and reflects both quantitative tools as well as senior management judgement.
- Expense risk ERC: the difference between expenses and revenues in a severe market event, exclusive of the elements captured by position risk ERC and operational risk ERC.

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

**c. Market risk**

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

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

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

Historical financial market rates and prices serves as a basis for the statistical VaR model underlying the potential loss estimation. Credit Suisse Group uses a ten-day holding period and a confidence level of 99% calculated using, in general, a rolling two-year history of market data to model the risk in its trading portfolios. These assumptions are in agreement with the "Amendment to the Capital Accord to Incorporate Market Risks" published by the Basel Committee on Banking Supervision in 1996 and other related international standards for market risk management. For some purposes, such as backtesting, disclosure and benchmarking with competitors, the resulting VaR figures are scaled down or calculated using one-day holding period values.

Following a detailed review of the VaR model and all related processes and controls, the Financial Services Authority first recognised the VaR model for use in the calculation of the Company's market risk capital effective 1 January 2003. The Company continues to receive regulatory approval for ongoing enhancements to the methodology, and the model is subject to regular reviews by regulators and auditors.

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

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

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

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

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.

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

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

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 2005 was US$36 million, compared to US$24 million at 31 December 2004.

[illegible] in Credit Suisse Securities (Europe) Ltd trading portfolios (1-day, 99% Value-at-Risk) [1]

| | 2005 | | | | 2004 | | | |
|---|---|---|---|---|---|---|---|---|
| In US$ million | Min. | Max. | Average | 31.12.2005 | Min. | Max. | Average | 31.12.2004 |
| Interest rate & credit spread | 9.2 | 23.9 | 15.0 | 12.1 | 9.0 | 19.8 | 12.6 | 14.5 |
| Foreign exchange | 1.6 | 11.7 | 6.2 | 9.7 | 2.0 | 8.0 | 4.3 | 3.1 |
| Equity | 5.0 | 21.8 | 10.9 | 21.5 | 4.0 | 34.6 | 8.9 | 20.7 |
| Commodity | 0.0 | 1.4 | 0.2 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| Diversification Benefit | [2] | [2] | (10.4) | (7.8) | [2] | [2] | (9.4) | (14.3) |
| **Total** | 12.5 | 36.8 | 21.9 | 35.5 | 10.6 | 39.7 | 16.4 | 24.0 |

1) Disclosure covers all trading books of Credit Suisse Securities (Europe) Ltd. Numbers represent 10-day VaR scaled to a 1-day holding period.
2) As the minimum and maximum occur on different days for different risk types, it is not meaningful to calculate a portfolio diversification benefit.

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

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

**v) 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 report, 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 was immaterial as at 31 December 2005 compared to a decrease in the value of the non-trading portfolio of approximately US$3 million at 31 December 2004.

Foreign exchange risk on non-trading positions is measured using sensitivity analysis that estimates the potential change in value resulting from a 10% strengthening of the US dollar against developed nation currencies and a 20% strengthening of the US dollar against emerging market nation currencies. The estimated impact for the Company would be a decrease of approximately US$13 million at 31 December 2005 compared to a decrease in the value of the non-trading portfolio of approximately US$3 million at 31 December 2004.

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

**d. Operational risk**

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

Operational risk is inherent in most aspects of the Group's activities and comprises a large number of disparate risks. While market and credit risk are often chosen for the prospect of gain, operational risk is normally accepted as a necessary consequence of doing business. In comparison to market or credit risk, the sources of operational risk are difficult to identify comprehensively and the amount of risk is also intrinsically difficult to measure. The Group therefore manages operational risk differently from market and credit risk. The Group believes that effective management of operational risks requires ownership by the management responsible for the relevant business process. Operational risk is thus controlled through a network of controls, procedures, reports and responsibilities. Within the Group, each individual business area and management level takes responsibility for its own operational risks and provides adequate resources and procedures for the management of those risks.

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

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

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

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

**e. 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 Board sets limits on the level of exposure by currency and in total for both overnight and intra-day positions, which are monitored daily.

The 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) ii) of this Note.

Non-Trading
The Company'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 Company's earnings from subsequent changes in exchange rates.

At 31 December 2005, the largest non-trading currency exposures against the US Dollar were in EUR (long US$22M) and GBP (short US$427M). At 31 December 2004, the largest exposures were in EUR (long US$38M), GBP (short $311M) and KRW (long US$72M).

**f. Credit Risk**

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

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

**i) Definition of Counterparty 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.

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

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

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

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 Company.

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 Company 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 Company 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**

| | 2005 | | 2004 | |
|---|---|---|---|---|
| | **US$M** | **%** | **US$M** | **%** |
| AAA | 2,464 | 35.0 | 345 | 7.4 |
| AA+ to AA- | 2,615 | 37.1 | 1,885 | 40.3 |
| A+ to A- | 1,299 | 18.4 | 1,550 | 33.1 |
| BBB+ to BBB- | 395 | 5.6 | 555 | 11.9 |
| BB and below+ to BB- | 270 | 3.9 | 341 | 7.3 |
| | 7,043 | | 4,676 | |

**iii) Risk mitigation**

The Company 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.

**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'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 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 Company 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 Company 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 Company acts as principal; the unenforceability or inadequacy of the documentation used to give effect to transactions in which the Company participates; investment suitability concerns; compliance with the laws and regulations (including change in laws or regulations) of the many countries in which the Company does business; and disputes with its employees. Some of these transactions or disputes result in potential or actual litigation that the Company must incur legal expenses to defend.

The Company 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 Company's business activities or other sanctions. The Company 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 Company 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.

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

**j. Reputational Risk**

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

**k. Liquidity Risk**

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

Liquidity is managed 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 has sufficient funds to repay maturing liabilities without requiring any balance sheet reduction. Credit Suisse's liquidity disciplines are segregated into two main funding franchises:

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

2 – Those funds raised by fellow subsidiaries, particularly 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.

**l. Corporate Asset And Liability Management**

The Corporate Treasury department at Credit Suisse 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 minimises interest rate and foreign currency exposures from a corporate perspective. Trading divisions are authorised to take such risks as part of their business strategies, within limits set by CARMC.

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

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

A discussion of the Value at Risk (VaR) methodology used by the Company for managing interest rate risk is provided in section c) ii) of this Note.

### 33. Significant Subsidiaries and Associates

Significant subsidiaries

| 31 December 2005 % of equity held | Company name | Domicile | Currency | Capital in $ |
|---|---|---|---|---|
| 100 | Credit Suisse First Boston Nominees Limited | UK | US$ | 3 |
| 100 | Credit Suisse First Boston Trustees Limited | UK | US$ | 173 |
| 100 | Credit Suisse First Boston Private Funds Group Limited | UK | US$ | 3 |

Under section 228 of the Companies Act 1985 the Company is exempt from preparing consolidated financial statements as the Company is a wholly owned subsidiary of Credit Suisse Investment Holdings (UK) which is 98% owned by Credit Suisse Investments (UK) which prepares consolidated accounts. The ultimate holding company is Credit Suisse Group, which is incorporated in Switzerland.

Copies of accounts of Credit Suisse Investments (UK) and group accounts of the ultimate holding company, 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.

## 34. Explanation of Transition to IFRS

As stated in Note 2 these are the Company's first financial statements prepared in accordance with IFRSs.

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

### Transitional arrangements

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

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

### Reclassifications

Certain reclassifications of comparatives have been made on the balance sheet and income statement to reflect the appropriate IFRS categorisations. Additional reclassifications have also been made to align with the format of the financial statements of the ultimate holding company where permitted by IFRS.

'Debtors' have been reclassified to either 'Central bank funds sold', 'Other assets', 'Trading assets' or 'Cash and due from banks'.

'Other Creditors' have been reclassified to either 'Central Bank Funds Purchased', 'Short-term Borrowings', 'Other Liabilities' or 'Trading liabilities'. 'Short-term Borrowings', as opposed to Deposits, represent bank borrowings with original maturities of one year or less.

**34. Explanation of Transition to IFRS (continued)**

**Reclassification (before remeasurement) of Balance Sheet from UK GAAP to IFRS format only as at 31 December 2003**

| | UK GAAP | Reclassification | UK GAAP in IFRS format |
|---|---|---|---|
| **Assets** | **US$M** | **US$M** | **US$M** |
| Cash and due from banks | - | 1,831 | 1,831 |
| Cash at bank | 187 | (187) | - |
| Securities purchased under resale agreements and securities borrowing transactions | - | 75,821 | 75,821 |
| Debtors | 97,760 | (97,760) | - |
| Trading assets | - | 36,667 | 36,667 |
| Trading securities | 30,969 | (30,969) | - |
| Other investments | - | 4 | 4 |
| Financial investments | 2 | (2) | - |
| Deferred tax assets | - | 112 | 112 |
| Other assets | - | 14,483 | 14,483 |
| Investments in associated undertakings | - | 38 | 38 |
| Shares in subsidiary undertakings | 38 | (38) | - |
| Goodwill | 7 | | 7 |
| Property, plant and equipment | - | 71 | 71 |
| Tangible fixed assets | 71 | (71) | - |
| **Total assets** | **129,034** | **-** | **129,034** |
| **Liabilities** | | | |
| Deposits | - | 1,389 | 1,389 |
| Securities sold under resale agreements and securities lending transactions | - | 57,529 | 57,529 |
| Trading liabilities | - | 27,671 | 27,671 |
| Trading securities sold, not yet purchased | 22,289 | (22,289) | - |
| Short term borrowings | - | 29,248 | 29,248 |
| Long term debt | - | 1,824 | 1,824 |
| Subordinated loan capital | 1,824 | (1,824) | - |
| Current tax liabilities | - | 102 | 102 |
| Other liabilities | - | 10,556 | 10,556 |
| Other creditors | 104,176 | (104,176) | - |
| Provisions | 30 | (30) | - |
| **Total liabilities** | **128,319** | **-** | **128,319** |
| **Shareholders' equity** | | | |
| Called up share capital | 27 | 2,548 | 2,575 |
| Capital contribution reserve | 2,559 | (2,559) | - |
| Profit and loss account | (1,871) | 1,871 | |
| Retained earnings | - | (1,831) | (1,831) |
| Other reserves | - | (29) | (29) |
| **Shareholders' funds** | **715** | **-** | **715** |
| **Total liabilities and shareholders' equity** | **129,034** | **-** | **129,034** |

**34. Explanation of Transition to IFRS (continued)**

**Reclassification (before remeasurement) of Balance Sheet from UK GAAP to IFRS format only as at 31 December 2004**

| | UK GAAP | Reclassification | UK GAAP in IFRS format |
|---|---|---|---|
| **Assets** | **US$M** | **US$M** | **US$M** |
| Cash and due from banks | - | 3,132 | 3,132 |
| Cash at bank | 155 | (155) | - |
| Interest-bearing deposits with banks | - | 251 | 251 |
| Securities purchased under resale agreements and securities borrowing transactions | - | 100,903 | 100,903 |
| Debtors | 128,113 | (128,113) | - |
| Trading assets | - | 48,398 | 48,398 |
| Trading securities | 43,533 | (43,533) | - |
| Other investments | - | 8 | 8 |
| Financial investments | 1 | (1) | - |
| Deferred tax assets | - | 168 | 168 |
| Other assets | - | 18,942 | 18,942 |
| Goodwill | 7 | - | 7 |
| Property, plant and equipment | - | 72 | 72 |
| Tangible fixed assets | 72 | (72) | - |
| **Total assets** | **171,881** | **-** | **171,881** |
| | | | |
| **Liabilities** | | | |
| Deposits | - | 259 | 259 |
| Securities sold under resale agreements and securities lending transactions | - | 66,397 | 66,397 |
| Trading liabilities | - | 27,954 | 27,954 |
| Trading securities sold, not yet purchased | 22,296 | (22,296) | - |
| Short term borrowings | - | 59,952 | 59,952 |
| Long term debt | - | 1,524 | 1,524 |
| Subordinated loan capital | 1,524 | (1,524) | 0 |
| Current tax liabilities | - | 36 | 36 |
| Other liabilities | - | 14,970 | 14,970 |
| Other creditors | 147,244 | (147,244) | 0 |
| Provisions | 28 | (28) | 0 |
| **Total liabilities** | **171,092** | **-** | **171,092** |
| **Shareholders' equity** | | | |
| Called up share capital | 27 | 2,848 | 2,875 |
| Capital contribution reserve | 2,859 | (2,859) | - |
| Profit and loss account | (2,097) | 2,097 | - |
| Retained earnings | - | (2,056) | (2,056) |
| Other reserves | - | (30) | (30) |
| **Shareholders' funds** | **789** | **-** | **789** |
| **Total liabilities and shareholders' equity** | **171,881** | **-** | **171,881** |

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2005

**34. Explanation of Transition to IFRS (continued)**

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

| | UK GAAP | Reclassification | UK GAAP in IFRS format |
|---|---|---|---|
| | US$M | US$M | US$M |
| Interest and dividend income | - | 2,606 | 2,606 |
| Interest expense | - | (2,967) | (2,967) |
| **Net interest income** | | **(361)** | **(361)** |
| Net commissions and fees | - | 1,098 | 1,098 |
| Trading revenues | - | 936 | 936 |
| Other revenues | - | (43) | (43) |
| Operating Income | 1,562 | (1,562) | - |
| **Total non interest revenues** | **1,562** | **429** | **1,991** |
| **Net operating income** | **1,562** | **68** | **1,630** |
| Impairment Losses on loans and advances | - | - | - |
| **Total Income** | **1,562** | **68** | **1,630** |
| Administration expenses | (1,796) | 1,796 | - |
| Compensation and benefits | - | (1,539) | (1,539) |
| Other expenses | - | (365) | (365) |
| **Total operating expenses** | **(1,796)** | **(108)** | **(1,904)** |
| **Profit on Ordinary Activities Before Interest** | **(234)** | **(40)** | **(274)** |
| Interest payable on subordinated debt | (40) | 40 | - |
| **Profit before tax** | **(274)** | **-** | **(274)** |
| **Profit on Ordinary Activities Before Taxation** | **(274)** | **-** | **-** |
| Tax credit/ (charge) on profit on ordinary activities | 49 | (49) | - |
| Income tax expense | - | 49 | 49 |
| **Net Income** | **-** | **-** | **(225)** |
| **Retained Profit for the financial year** | **(225)** | **-** | **-** |

**34. Explanation of Transition to IFRS (continued)**

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

| | 1 January 2004 under UK GAAP in IFRS format | Share based payments (a) | Deferred Tax (c) | 1 January 2004 under IFRS (excluding IAS 32/39) |
|---|---|---|---|---|
| | US$M | US$M | US$M | US$M |
| **Assets** | | | | |
| Cash and due from banks | 1,831 | - | - | 1,831 |
| Interest-bearing deposits with banks | - | - | - | - |
| Securities purchased under resale agreements and securities borrowing transactions | 75,821 | - | - | 75,821 |
| Trading assets | 36,667 | - | - | 36,667 |
| Financial investments | - | - | - | - |
| Other investments | 4 | - | - | 4 |
| Deferred tax assets | 112 | - | 82 | 194 |
| Other assets | 14,483 | - | - | 14,483 |
| Investments in associated undertakings | 38 | - | - | 38 |
| Goodwill | 7 | - | - | 7 |
| Property, plant and equipment | 71 | - | - | 71 |
| **Total assets** | **129,034** | **-** | **82** | **129,116** |

**34. Explanation of Transition to IFRS (continued)**

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

| | 1 January 2004 under UK GAAP in IFRS format | Share based payments (a) | Pension (b) | Deferred Tax (c) | 1 January 2004 under IFRS excluding IAS32/39 |
|---|---|---|---|---|---|
| **Liabilities** | | | | | |
| Deposits | 1,389 | - | - | - | 1,389 |
| Securities sold under resale agreements and securities lending transactions | 57,529 | - | - | - | 57,529 |
| Trading liabilities | 27,671 | - | - | - | 27,671 |
| Short term borrowings | 29,248 | - | - | - | 29,248 |
| Long term debt | 1,824 | - | - | - | 1,824 |
| Current tax liabilities | 102 | - | - | - | 102 |
| Deferred tax liabilities | - | - | - | - | - |
| Other liabilities | 10,556 | 35 | 238 | - | 10,829 |
| **Total liabilities** | **128,319** | **35** | **238** | **-** | **128,592** |
| **Shareholders' equity** | | | | | |
| Called up share capital | 2,575 | - | - | - | 2,575 |
| Retained earnings | (1,831) | (35) | (238) | 82 | (2,022) |
| Other reserves | (29) | - | - | - | (29) |
| **Total shareholders' equity** | **715** | **(35)** | **(238)** | **82** | **524** |
| **Total liabilities and shareholders' equity** | **129,034** | **-** | **-** | **82** | **129,116** |

**34. Explanation of Transition to IFRS (continued)**

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

| | 31 December 2004 under UK GAAP in IFRS format | Deferred Tax (c) | Other | 31 December 2004 under IFRS excluding IAS32/39 |
|---|---|---|---|---|
| | US$M | US$M | | US$M |
| **Assets** | | | | |
| Cash and due from banks | 3,132 | - | 3 | 3,135 |
| Interest-bearing deposits with banks | 251 | - | 49 | 300 |
| Securities purchased under resale agreements and securities borrowing transactions | 100,903 | - | - | 100,903 |
| Trading assets | 48,398 | - | (49) | 48,349 |
| Financial investments | - | - | - | 0 |
| Other investments | 8 | - | - | 8 |
| Deferred tax assets | 168 | 81 | - | 249 |
| Other assets | 18,942 | - | - | 18,942 |
| Goodwill | 7 | - | - | 7 |
| Property, plant and equipment | 72 | - | - | 72 |
| **Total assets** | **171,881** | **81** | **3** | **171,965** |

**34. Explanation of Transition to IFRS (continued)**

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

| | 31 December 2004 under UK GAAP in IFRS format | Share based payments (a) | Pension (b) | Deferred Tax (c) | Other | 31 December 2004 under IFRS excluding IAS32/39 |
|---|---|---|---|---|---|---|
| | US$M | US$M | US$M | US$M | US$M | US$M |
| **Liabilities** | | | | | | |
| Deposits | 259 | - | - | - | 3 | 262 |
| Securities sold under resale agreements and securities lending transactions | 66,397 | - | - | - | - | 66,397 |
| Trading liabilities | 27,954 | - | - | - | - | 27,954 |
| Short term borrowings | 59,952 | - | - | - | - | 59,952 |
| Current tax liabilities | 36 | - | - | - | - | 36 |
| Long term debt | 1,524 | - | - | - | - | 1,524 |
| Deferred tax liabilities | - | - | - | 11 | - | 11 |
| Other liabilities | 14,970 | 107 | 127 | - | - | 15,204 |
| **Total liabilities** | **171,092** | **107** | **127** | **11** | **3** | **171,340** |
| **Shareholders' equity** | | | | | | |
| Called up share capital | 2,875 | - | - | - | - | 2,875 |
| Retained earnings | (2,056) | (107) | (127) | 70 | - | (2,220) |
| Other reserves | (30) | - | - | - | - | (30) |
| **Total shareholders' equity** | **789** | **(107)** | **(127)** | **70** | **-** | **625** |
| **Total liabilities and shareholders' equity** | **171,881** | **-** | **-** | **81** | **3** | **171,965** |

**34. Explanation of Transition to IFRS (continued)**

**Reconciliation of Balance Sheet as at 1 January 2005 (including IAS32/39)**

| | 1 January 2005 under IFRS (excluding IAS 32/39) | Netting (d) | Deferred Tax (c) | Other | 1 January 2005 under IFRS including IAS32/39 |
|---|---|---|---|---|---|
| | US$M | US$M | US$M | US$M | US$M |
| **Assets** | | | | | |
| Cash and due from banks | 3,135 | 408 | - | - | 3,543 |
| Interest-bearing deposits with banks | 300 | - | - | - | 300 |
| Securities purchased under resale agreements and securities borrowing transactions | 100,903 | 36,211 | - | (10) | 137,104 |
| Trading assets | 48,349 | 2,482 | - | (4) | 50,827 |
| Financial investment | - | - | - | - | - |
| Other investments | 8 | - | - | - | 8 |
| Deferred tax assets | 249 | - | 1 | - | 250 |
| Other assets | 18,942 | 3,220 | - | - | 22,162 |
| Goodwill | 7 | - | - | - | 7 |
| Property, plant and equipment | 72 | - | - | - | 72 |
| **Total assets** | **171,965** | **42,321** | **1** | **(14)** | **214,273** |

**34. Explanation of Transition to IFRS (continued)**

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

| | 1 January 2005 under IFRS (excluding IAS 32/39) | Netting (d) | Deferred Tax (c) | Other | 1 January 2005 under IFRS including IAS32/39 |
|---|---|---|---|---|---|
| | US$M | US$M | US$M | US$M | US$M |
| **Liabilities** | | | | | |
| Deposits | 262 | - | - | - | 262 |
| Securities sold under resale agreements and securities lending transactions | 66,397 | 36,211 | - | (11) | 102,597 |
| Trading liabilities | 27,954 | 2,482 | - | - | 30,436 |
| Short term borrowings | 59,952 | 408 | - | - | 60,360 |
| Current tax liabilities | 36 | - | - | - | 36 |
| Long term debt | 1,524 | - | - | - | 1,524 |
| Deferred tax liabilities | 11 | - | - | - | 11 |
| Other liabilities | 15,204 | 3,220 | - | (3) | 18,421 |
| **Total liabilities** | **171,340** | **42,321** | **-** | **(14)** | **213,647** |
| **Shareholders' equity** | | | | | |
| Called up share capital | 2,875 | - | - | - | 2,875 |
| Retained earnings | (2,220) | - | 1 | (3) | (2,222) |
| Other reserves | (30) | - | - | 3 | (27) |
| **Total shareholders' equity** | **625** | **-** | **1** | **-** | **626** |
| **Total liabilities and shareholders' equity** | **171,965** | **42,321** | **1** | **(14)** | **214,273** |

**34. Explanation of Transition to IFRS (continued)**

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

| | 31 December 2004 per UK GAAP in IFRS format | Share based payments (a) | Pension (b) | Deferred Tax (c) | 31 December 2004 per IFRS (excluding IAS 32/39) |
|---|---|---|---|---|---|
| Interest income and dividend income | 2,606 | - | - | - | 2,606 |
| Interest expense | (2,967) | - | - | - | (2,967) |
| **Net interest income** | **(361)** | **-** | **-** | **-** | **(361)** |
| Commissions and fees | 1,098 | - | - | - | 1,098 |
| Trading revenues | 936 | - | - | - | 936 |
| Other revenues | (43) | - | - | - | (43) |
| **Total non interest revenues** | **1,991** | **-** | **-** | **-** | **1,991** |
| **Total operating income** | **1,630** | **-** | **-** | **-** | **1,630** |
| Impairment for losses on loans and advances | 0 | - | - | - | 0 |
| **Net operating income** | **1,630** | **-** | **-** | **-** | **1,630** |
| Compensation and benefits | (1,539) | (72) | 111 | - | (1,500) |
| Other expenses | (365) | - | - | - | (365) |
| **Total operating expenses** | **(1,904)** | **(72)** | **111** | **-** | **(1,865)** |
| **Profit before tax** | **(274)** | **(72)** | **111** | **-** | **(235)** |
| Income tax expense | 49 | - | - | (12) | 37 |
| **Profit after tax** | **(225)** | **(72)** | **111** | **(12)** | **(198)** |

### 34. Explanation of Transition to IFRS (continued)

**DIFFERENCE BETWEEN UK GAAP AND IFRS**

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

| UK GAAP | IFRS |
|---|---|
| **(a) Share based payment** | |
| Awards with graded vesting are viewed as one award and accounted for on a straight-line basis from grant date to final vesting date. | Under IFRS, the reporting entity treats each tranche as a separate grant of share awards, because each tranche has a different vesting period, unless the employee is eligible for early retirement or retirement before the end of the vesting period, in which case recognition of the expense would be accelerated over the shorter period. In practice, this results in the 'front-loading' of the expense for awards with graded vesting under IFRS compared with UK GAAP. |
| **(b) Pension** | |
| As contributions to the Fund are paid by a number of participating companies, CSS(E)L is unable to identify it's share of the underlying assets and liabilities within the Fund and in accordance with the exemption granted in FRS 17 accounted for the scheme as a defined contribution scheme under UK GAAP. | IFRS allows a smoothing of the P&L impact of actuarial gains and losses over the expected average remaining working lives of participating employees if these actuarial gains or losses exceed the 10% "corridor" (exceed the greater of 10% of the present value of the obligation or 10% of the fair value of the plan assets). As CSS(E)L's actuarial losses exceed the 10% corridor these losses have been deferred. |
| **(c) Deferred Tax** | |
| Deferred tax is recognised in respect of timing differences that have originated but not reversed at the balance sheet date. Provision is not made for specific items which are not expected to result in taxable income in the future. | Under IFRS the amount of deferred tax provided is based on the amount at which it is expected to recover or settle the carrying amount of assets and liabilities in the balance sheet, using tax rates enacted or substantively enacted at the balance sheet date. |

**34. Explanation of Transition to IFRS (continued)**

| **(d) Netting** | |
|---|---|
| Under FRS 5, items are aggregated into a single item where there is a right to insist on net settlement and the debit balance matures no later than the credit balance. | Financial assets and liabilities are offset and the net amount reported in the balance sheet if, and only if, there is currently a legally enforceable right to set off the recognised amounts and there is an intention to settle on a net basis at all times, or to realise an asset and settle the liability simultaneously.<br><br>In many instances the Company's net position on multiple transactions with the same counterparty is legally protected by Master Netting Agreements. Such agreements ensure that the net position is settled on the event of default of either counterparty and effectively limit credit risk on gross exposures. However, if the transactions themselves are not intended to be settled net nor will they settle simultaneously, it is not permissible under IAS32 to offset transactions falling under Master Netting Agreements.<br><br>The application of IFRS has resulted in certain transactions that qualified for netting under UK GAAP being presented on a gross basis from 1 January 2005. The primary differences include derivative assets and liabilities subject to master netting agreements, repurchase contracts and cash collateral balances. |

**The following UK GAAP accounting policies apply to our 2004 comparatives:**

a) Transactions in trading securities; trading securities sold, not yet purchased; forwards; futures; swaps; warrants and options are recorded on a trade date basis.

b) Trading securities held as current trading assets are stated at market value and profits and losses arising from this valuation are taken to the profit and loss account. This is not in accordance with Schedule 4 to the Companies Act 1985 which requires that such assets be stated at the lower of cost and net realisable value, or that, if revalued, any revaluation differences be taken to revaluation reserve.

The directors consider that these requirements would fail to give a true and fair view of the result for the year of a company that holds readily marketable investments as current assets, since their marketability enables decisions to be taken continually about whether to hold or sell those assets, and hence the economic measure of performance in any period is properly made by reference to market values. It is not practicable to quantify the effect on the accounts of these departures since information on original cost, being of no continuing relevance to the business, is not readily available.

**34. Explanation of Transition to IFRS (continued)**

The determination of market value considers various factors, including: closing exchange or over the counter market price quotations; time and volatility factors; underlying options, warrants and contractual commitments; price activity for equivalent or synthetic instruments in markets located in different time zones; counterparty credit quality; recovery rates and the potential impact on market prices of liquidating the Company's positions in an orderly manner over a reasonable period of time under prevailing market conditions. Further, in determining the fair value of its contractual commitments, the Company considers future maintenance costs. These factors are incorporated into relevant valuation models to determine the market value of the investment.

c) In the ordinary course of its business the Company enters into forwards, futures, swaps, warrants and option contracts. Positions open at the year end are marked to market using similar inputs and models described in 1(b) above, and the resulting profits and losses are included in the profit and loss account.

d) Repurchase and resale agreements which are treated as financing transactions are carried in the balance sheet at the amounts at which the securities were initially acquired or sold as specified by the respective agreements, plus interest accrued to the balance sheet date.

Repurchase and resale agreements which are treated as trading transactions are stated at market value and profits and losses arising from this valuation are taken to the profit and loss account. This is not in accordance with Schedule 4 to the Companies Act 1985 which requires such assets to be stated at the lower of cost and net realisable value, or that, if revalued, any revaluation differences be taken to revaluation reserve. As stated in 1(b) above, the directors consider that these requirements would fail to give a true and fair view of the result for the year of a Company that holds readily marketable investments as current assets, since their marketability enables decisions to be taken continually about whether to hold or sell those assets, and hence the economic measure of performance in any period is properly made by reference to market values. It is not practicable to quantify the effect on the accounts of these departures since information on original cost, being of no continuing relevance to the business, is not readily available.

e) Stock borrowing and lending agreements are carried in the balance sheet at the amounts at which the securities were initially borrowed or lent as specified by the respective agreements, plus fees accrued to the balance sheet date.

f) Netting has been applied where allowed under UK GAAP and where agreements are in place which contain clauses that allow netting.

g) Financial investments are valued at cost less provision for any permanent diminution in value.

h) Advisory fee income is recognised upon the successful completion of a transaction. Fee income arising from primary capital market business is recognised on allotment date.

i) Interest income and expense are accounted for on an accrual basis.