

2501030

**CREDIT SUISSE (UK) LIMITED  
ANNUAL REPORT 2006**



COMPANY REGISTRATION NUMBER: 2009520

# CREDIT SUISSE (UK) LIMITED

## BOARD OF DIRECTORS

Maya Salzmann (Chairman)

Jeremy Marshall (CEO)

Roy McGregor

Paul Rayner

Jonathan Davie (Non Executive)

Richard Hambro (Non Executive)

Philip Ryan (Non Executive)

## COMPANY SECRETARY

Paul Hare

# CREDIT SUISSE (UK) LIMITED

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

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

### Business Review

#### Profile

Credit Suisse is a global financial services company domiciled in Switzerland specialising in Investment Banking, Private Banking and Asset Management.

Credit Suisse UK Limited ('CSUK' and the 'Bank') is a wholly owned subsidiary of Credit Suisse, Zurich, part of the Credit Suisse Group. CSUK is authorised and regulated by the Financial Services Authority (FSA).

The principal activities of the Bank are the provision of advice relating to advisory and discretionary investment services, banking services including secured lending facilities and financial planning advice. The product offering includes cash solutions, bond and equity products, advisory and discretionary hedge fund portfolios, structured products, tax efficient products, treasury, credit and other investment consulting solutions.

#### Strategy

The strategic goal of CSUK is to significantly increase assets under management over the next few years and build a significant presence in the extremely fragmented, highly competitive London private banking market place. Significant growth in both onshore and offshore client acquisition is based on targeting key prospects in private market segments with a natural affinity to Credit Suisse, sophisticated products and services, access to global markets and a leading brand name.

#### Performance

The Bank's total operating income was £41.4m (2005: £27.0m), a 53% increase over 2005. The retained loss after tax for the year was £(1.6)m compared with a loss of £(5.7)m in 2005. The loss in 2006 includes a 'One Bank', one off cost of £1.9m for moving CS Asset Management division staff into Credit Suisse's London headquarters in Canary Wharf. The additional cost pertaining to The Bank relates to the sub-letting of Beaufort House to a new tenant. CSUK Ltd holds the Beaufort House lease until 2015.

#### Dividends

No final dividend was paid or are proposed for 2006 (2005 : Nil).

#### Risks

The relevant risks are documented in note 28 of the accounts.

#### Directors

The names of the Directors as at the date of this report are set out on page 3. Changes in the Directorate since 31st December 2005 and up to the date of this report are as follows:

Appointment:	Maya Salzmann (Chairman)	14 September 2006
	Philip Ryan	20 July 2006
	Gary Tritton	17 January 2007
Resignations:	Alois Battig (Chairman)	14 September 2006
	Paul Reynolds	14 September 2006
	Richard Hambro (Non Executive)	17 January 2007

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

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

# CREDIT SUISSE (UK) LIMITED

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

### Share Capital

In 2006, there was an increase in authorised and issued share capital. On 12 January 2006, the authorised share capital was increased to £150,000,000. On 12 January 2006, 21,600,000 shares of £1 each were issued.

### Regulatory Capital

In order to support the business growth, specifically the increase in the loan book, the Bank increased its capital base to £102.3m in 2006 (2005: £80.7m). The capital base is currently in the form of Equity Share capital from Credit Suisse Zurich.

CSUK maintains an actively managed capital base to cover the risks inherent in the business. At 31 December 2006, the total reported Risk Weighted Assets based on FSA rules were £477m (2005: £441m), and the reported Risk Asset Ratio was 18.89% (2005: 16.55%) on total regulatory capital.

In 2006 a £40m subordinated debt facility was put in place with CSFB Finance BV. This facility has not yet been used for additional capital in CSUK.

### Employee Involvement and Employment of Disabled Persons

The Bank has a progressive strategy which supports its desire to become an employer of choice for all including the disabled. The Bank 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

There were no charitable or political donations made by the Bank during the year (2005: Nil).

### Auditors

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

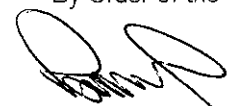
### International Financial Reporting Standards

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

### Subsequent Events

On 11 January 2007, CSUK paid a client \$1.75m as compensation for an investment. Half of the compensation (\$875k) was received before the end of the year from Credit Suisse (Hong Kong) Ltd, the remainder (\$875k) was released from the legal provision in note 18.

By Order of the Board



Paul Hare  
Company Secretary

One Cabot Square  
London E14 4QJ  
7 March 2007

## **CREDIT SUISSE (UK) LIMITED**

### **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 the Bank's financial statements for each financial year. Under that law the directors have elected to prepare the Bank's financial statements in accordance with IFRSs as adopted by the EU.

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

In preparing the Bank's financial statements, the directors are required to:

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

The directors are responsible for keeping proper accounting records that disclose with reasonable accuracy at any time the financial position of the Bank and enable them to ensure that its financial statements comply with the Companies Act 1985. They have a general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the Bank and to prevent and detect fraud and other irregularities.

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

# **INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF CREDIT SUISSE (UK) LIMITED**

We have audited the Bank financial statements of Credit Suisse (UK) Limited (the 'Bank') for the year ended 31 December 2006 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 Bank's members, as a body, in accordance with section 235 of the Companies Act 1985. Our audit work has been undertaken so that we might state to the Bank's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Bank and the Bank's members as a body, for our audit work, for this report, or for the opinions we have formed.

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

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

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

We report to you our opinion as to whether the financial statements give a true and fair view and whether the financial statements have been properly prepared in accordance with the Companies Act 1985. We also report to you whether in our opinion the information given in the Directors' Report is consistent with the financial statements.

In addition we report to you if, in our opinion, the Bank has not kept proper accounting records, if we have not received all the information and explanations we require for our audit, or if information specified by law regarding directors' remuneration and other transactions is not disclosed.

We read the Directors' Report and consider the implications for our report if we become aware of any apparent misstatements within it.

## **Basis of audit opinion**

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

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

## **Opinion**

In our opinion:

- the financial statements give a true and fair view, in accordance with IFRSs as adopted by the EU, of the state of the Bank's affairs as at 31 December 2006 and of its loss for the year then ended;
- the financial statements have been properly prepared in accordance with the Companies Act 1985; and
- the information given in the Director's Report is consistent with the financial statements.

KPMG Audit Plc.

**KPMG Audit Plc**  
Chartered Accountants  
London  
Registered Auditor  
7 March 2007

**CREDIT SUISSE (UK) LIMITED**  
**INCOME STATEMENT FOR THE YEAR ENDED 31 DECEMBER 2006**

		<b>2006</b>	<b>2005</b>
	<b>Note</b>	<b>£000</b>	<b>£000</b>
Interest income	4	85,174	64,403
Interest expense	4	(74,031)	(55,595)
<b>Net interest income</b>		<b>11,143</b>	<b>8,808</b>
Commissions and fees	5	26,383	14,782
Other revenues	5	3,877	3,404
<b>Total non-interest revenues</b>		<b>30,260</b>	<b>18,186</b>
<b>Total operating income</b>		<b>41,403</b>	<b>26,994</b>
Compensation and benefits	5	(28,911)	(22,243)
Other expenses	5	(14,194)	(12,983)
<b>Total operating expenses</b>		<b>(43,105)</b>	<b>(35,226)</b>
<b>Loss before tax</b>		<b>(1,702)</b>	<b>(8,232)</b>
Income tax benefit	6	57	2,558
<b>Loss after tax</b>		<b>(1,645)</b>	<b>(5,674)</b>

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

The notes on pages 12 to 49 form an integral part of these financial statements.

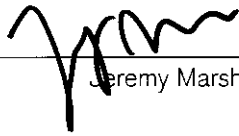


**CREDIT SUISSE (UK) LIMITED**  
**BALANCE SHEET AS AT 31 DECEMBER 2006**

	Note	2006 £000	2005 £000
<b>Assets</b>			
Cash and due from banks		14,380	7,304
Interest-bearing deposits with banks		129,448	137,502
Securities purchased under resale agreements	7	920,979	915,798
Trading assets	8	12,349	7,146
Loans	9	413,962	370,631
Deferred tax assets	11	7,010	5,314
Other assets	12	10,846	8,565
Intangible assets	14	817	1,787
Equipment	15	17	21
<b>Total assets</b>		<b>1,509,808</b>	<b>1,454,068</b>
<b>Liabilities</b>			
Deposits	16	1,362,973	1,327,657
Trading liabilities	8	12,069	6,878
Other liabilities	17	39,220	44,961
Provisions	18	7,042	6,023
<b>Total liabilities</b>		<b>1,421,304</b>	<b>1,385,519</b>
<b>Shareholders' equity</b>			
Called-up share capital	19	102,300	80,700
Capital contribution reserve		8,500	8,500
Retained earnings		(22,296)	(20,651)
<b>Total shareholders' equity</b>		<b>88,504</b>	<b>68,549</b>
<b>Total liabilities and shareholders' equity</b>		<b>1,509,808</b>	<b>1,454,068</b>

The notes on pages 12 to 49 form an integral part of these financial statements.

Approved by the Board of Directors on 7 March 2007 and signed on its behalf by:

  
 \_\_\_\_\_  
 Jeremy Marshall

**CREDIT SUISSE (UK) LIMITED**  
**STATEMENT OF CHANGES IN EQUITY FOR THE YEAR ENDED 31 DECEMBER 2006**

Attributable to equity holders of the Bank

	Share capital £000	Capital contribution reserve £000	Retained earnings £000	Total £000
<b>Restated balance at 1 January 2005 including IAS 32/39</b>	<b>36,500</b>	<b>8,500</b>	<b>(14,977)</b>	<b>30,023</b>
Increase in share capital	44,200	-	-	44,200
Loss for the year	-	-	(5,674)	(5,674)
<b>Balance at 31 December 2005</b>	<b>80,700</b>	<b>8,500</b>	<b>(20,651)</b>	<b>68,549</b>

	Share capital £000	Capital contribution reserve £000	Retained earnings £000	Total £000
<b>Balance at 1 January 2006 including IAS 32/39</b>	<b>80,700</b>	<b>8,500</b>	<b>(20,651)</b>	<b>68,549</b>
Increase in share capital	21,600	-	-	21,600
Loss for the year	-	-	(1,645)	(1,645)
<b>Balance at 31 December 2006</b>	<b>102,300</b>	<b>8,500</b>	<b>(22,296)</b>	<b>88,504</b>

There were no final dividends proposed or paid in 2006 (2005: Nil).

The notes on pages 12 to 49 form an integral part of these financial statements.

**CREDIT SUISSE (UK) LIMITED**  
**STATEMENT OF CASHFLOWS**  
**FOR THE YEAR ENDED 31 DECEMBER 2006**

	<b>2006</b>	<b>2005</b>
	<b>£000</b>	<b>£000</b>
<b>Cash flows from operating activities</b>		
Loss before tax for the year	(1,702)	(8,232)
<b><i>Adjustments to reconcile net income to net cash provided by / (used in) operating activities</i></b>		
Non-cash items included in profit before tax and other adjustments:		
Depreciation on intangibles assets and equipment	994	913
Net (increase) / decrease in operating assets:		
Securities purchased under resale agreements	(5,181)	(726,235)
Trading assets	(5,203)	(6,487)
Loans	(43,331)	(98,142)
Interest bearing deposits with banks	8,054	143,901
Other assets	(2,328)	(2,635)
Net increase / (decrease) in operating liabilities:		
Deposits	35,316	592,317
Trading liabilities	5,191	6,282
Other liabilities	(4,722)	31,875
<b>Cash generated from / (used in) operations</b>	<b>(12,912)</b>	<b>(66,443)</b>
Income taxes (paid) / received	(1,592)	821
<b>Net cash flow from / (used in) operating activities</b>	<b>(14,504)</b>	<b>(65,622)</b>
<b>Investing activities</b>		
Migration of offshore business	-	21,975
Capital expenditure for equipment and intangible assets	(20)	(515)
<b>Net cash flow from / (used in) investing activities</b>	<b>(20)</b>	<b>21,460</b>
<b>Financing activities</b>		
Increase in share capital	21,600	44,200
<b>Net cash flow from financing activities</b>	<b>21,600</b>	<b>44,200</b>
<b>Net increase in cash and cash equivalents</b>	<b>7,076</b>	<b>38</b>
Cash and cash equivalents at beginning of year	7,304	7,266
<b>Cash and cash equivalents at end of year</b>	<b>14,380</b>	<b>7,304</b>

The notes on pages 12 to 49 form an integral part of these financial statements.

## **1. General**

Credit Suisse (UK) Limited ('CSUK') is a bank incorporated in the United Kingdom. The address of the Bank's registered office is One Cabot Square, London, E14 4QJ.

The financial statements were authorised for issue by the directors on 7 March 2007.

## **2. Significant accounting policies**

### **a) Statement of compliance**

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

### **b) Basis of preparation**

The financial statements are presented in pounds sterling (GBP), rounded to the nearest thousand. They are prepared on the historical cost basis except that the following assets and liabilities are stated at their fair value: derivative financial instruments and financial instruments held for trading.

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

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

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

The Bank had also elected not to early adopt and is currently evaluating the potential impacts of the following IFRIC's, which are issued but not yet effective:

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

## **2. Significant accounting policies (continued)**

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

The company has two subsidiaries. The first being Buckmore Nominees Limited, which acts as a nominee company. The net assets and results of this subsidiary have not been consolidated into the Company, as the entity is a non-trading and not considered material. Details of the subsidiary undertaking are given in note 10.

The second subsidiary, CS London Nominees Limited acts as a nominee company. The net assets and results of this subsidiary have not been consolidated into the Company, as the entity is non-trading and not considered material. Details of the subsidiary undertaking are given in note 10.

### **d) Foreign currency**

Transactions denominated in currencies other than GBP 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 GBP 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.

### **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 under resale agreements**

Securities purchased under resale agreements (reverse repurchase agreements) are generally treated as collateralised financing transactions. The cash advanced, including accrued interest, is recognised on the balance sheet as an asset.

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

Interest earned on reverse repurchase agreements is recognised on an effective yield basis and recorded as interest income.

### **g) Trading assets and liabilities**

Trading assets and liabilities relate to derivative instruments. These assets and liabilities are included as part of the trading portfolio based on management's intent to sell the assets or repurchase the liabilities in the near term, and are carried at fair value. Transactions with 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 those used in the financial markets. Where the input parameters cannot be validated using observable market data, reserves are established for unrealised gains or losses evident at the inception of the contracts so that no gain or loss is recorded at inception. Such reserves are amortised to income over the life of the instrument or released into income when observable market data becomes available.

## **2. Significant accounting policies (continued)**

### **h) Derivative financial instruments**

All freestanding derivative contracts are carried at fair value in the balance sheet regardless of whether these instruments are held for trading or risk management purposes.

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 customer-based activity. Changes in realised and unrealised gains and losses and interest flows are included in *Interest Income* and *Interest Expense*.

Fair value recorded for derivative instruments does not indicate future gains or losses, but rather the unrealised gains and losses from valuing all derivatives at a particular point in time. The fair value of exchange-traded derivatives is typically derived from observable market prices and / or observable market parameters. Fair values for over-the-counter (OTC) derivatives are determined on the basis of internally developed proprietary models using various input parameters. Where the input parameters cannot be validated using observable market data, reserves are established for unrealised gains or losses evident at the inception of the contracts so that no gain or loss is recorded at inception. Such reserves are amortised to income over the life of the instrument or released into income when observable market data becomes available.

### **i) Derecognition**

The Bank may enter 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 Bank neither retains nor transfers substantially all risks and rewards of ownership of a financial asset, it derecognises the asset if control over the asset is lost. The rights and obligations retained in the transfer are recognised separately as assets and liabilities as appropriate. In transfers where control over the asset is retained, the Bank 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 Bank derecognises financial liabilities when they are extinguished. Where the Bank has a financial liability and this instrument is exchanged for a new instrument with the same counterparty, which is substantially different, or when an existing instrument classified as a financial liability is substantially modified, the old instrument is deemed to be extinguished and a new financial liability is recognised. Any gain or loss due to derecognition of the extinguished instrument is recorded in the income statement. Where a modification and not an extinguishment is deemed to have occurred, the difference is adjusted to the carrying value of the new instrument and reclassified into income using the effective interest method.

### **j) Loans and receivables and impairment losses on loans and receivables**

Loans and receivables are recognised when cash is advanced to borrowers. They are initially recorded at fair value, which is the cash given to originate the loan, and are subsequently carried at amortised cost. Interest income is accrued on the unpaid principal balance.

The Bank assesses at each balance sheet date whether there is objective evidence that a loan position or a portfolio of loans is impaired. An individual loan position or portfolio of loans is impaired and impairment losses are incurred if, and only if, there is objective evidence of impairment as a result of one or more loss events that occurred after the initial recognition of the asset and prior to the balance sheet date ('a loss event') and that loss event or events has had an impact on the estimated future cash flows of the financial asset or the portfolio that can be reliably estimated.

Many factors can affect the Bank's estimate of the impairment losses on loans and receivables, including volatility of default probabilities, rating migrations and loss severity. The estimation of this component of the impairment for the portfolio involves applying historical loss experience, adjusted to reflect current market conditions, to homogeneous loans based on risk rating and product type. To estimate this component of the

## **2. Significant accounting policies (continued)**

### **j) Loans and receivables and impairment losses on loans and receivables (continued)**

impairment for loans, the Bank segregates loans by risk, industry or country rating. Excluded from this estimation process are loans where a specifically identified loss has been included in the specific component of the allowance for loan losses.

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

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

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

### **k) Netting**

The Bank 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 some instances the Bank's net position on multiple transactions with the same counterparty are legally protected by Master Netting Agreements. Such agreements ensure that the net position is settled in the event of default of either counterparty and effectively limit credit risk on gross exposures. However, if the transactions themselves are not intended to be settled net nor will they settle simultaneously, it is not permissible under IAS32 to offset transactions falling under Master Netting Agreements.

The Bank currently has no legal netting agreements with non related parties.

### **l) Income taxes**

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

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

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

## **2. Significant accounting policies (continued)**

### **l) Income taxes (continued)**

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.

A deferred tax liability is recognised on taxable temporary differences arising on un-remitted earnings of subsidiaries except to the extent that it is probable that such temporary differences will not reverse in the foreseeable future.

Information as to the calculation of income tax on the profit or loss for the periods presented is included in note 6.

### **m) Intangible assets**

Intangible assets consist primarily of internally developed software. Expenditure on internally developed software is recognised as an asset when the Bank is able to demonstrate its intention and ability to complete the development and use the software in a manner that will generate future economic benefits, and can reliably measure the costs to complete the development. The capitalised costs of internally developed software include all costs directly attributable to developing the software, and amortised over its useful life.

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

### **n) Property, plant and equipment**

All property, plant and equipment is 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 Bank 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:

Computer equipment	3 years
Office equipment	5 years

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

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

### **o) Retirement benefit costs**

The Bank has only defined contribution pension plans. The defined benefit plans are group schemes, in which the Bank is not the sponsoring entity.

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



## **2. Significant accounting policies (continued)**

### **o) Retirement benefit costs (continued)**

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

### **p) 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.

### **q) Share based payments**

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

The Bank grants shares in its ultimate parent group Credit Suisse Group to certain employees. The Bank purchases Credit Suisse Group ('CSG') shares from Credit Suisse (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 Bank's obligation to settle the liability by the delivery of an asset that is not equity instruments of the Bank. A liability equal to the portion of the services received is recognised at the current market value determined at each balance sheet date. The expense for share-based payments is determined by treating each tranche as a separate grant of share awards unless the employee is eligible for early retirement or retirement before the end of the vesting period, in which case recognition of the expense would be accelerated over the shorter period.

### **r) Interest income and expense**

Interest income and expense includes interest income and expense on the Bank's financial instruments owned, financial instruments sold not yet purchased and reverse repurchases. Interest income and expense also includes interest flows on the Bank's trading derivatives, which are recorded using the effective interest rates of the financial assets or financial liabilities to which they relate.

### **s) 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.

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.

## **2. Significant accounting policies (continued)**

### **t) Operating leases**

The leases entered into by the Bank are primarily 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 payment required to be made to the lessor is recognised as an expense in the period in which termination takes place.

### **u) Dividends**

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

### **v) Provisions**

Specific provision is made in respect of known material costs and liabilities that are likely to occur, such as legal and property costs. These provisions are reviewed annually by management and adjusted accordingly.

The Bank reports an onerous lease provision, which is made for the future rental and related costs of leasehold property where it is vacant, surplus to the Bank's requirements or where the leasehold property has been sublet at a loss.

## **3. Critical accounting estimates and judgements in applying accounting policies**

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

### **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 Bank is involved in a variety of legal, regulatory and arbitration matters in connection with the conduct of our 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 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 judgment 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 Bank's defences and 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.

#### ***Income taxes***

##### ***Deferred tax valuation***

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

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

##### ***Retirement benefit costs***

The following relates to the assumptions CSS (Europe) Ltd, the sponsor of the defined benefit plan, has made in arriving at the valuations of the various components of the defined benefit plan, of which the Bank is a participant.

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

CSS (Europe) Ltd is required to estimate the expected return on plan assets, which is then used to compute pension cost recorded in the consolidated statements of income. Estimating future returns on plan assets is particularly subjective since the estimate requires an assessment of possible future market returns based on the plan asset mix and observed historical returns. The Bank uses the calculated value of assets in calculating pension expense and in determining the expected rate of return.

The discount rate used in determining the benefit obligation is based either upon high quality corporate bond rates or government bond rates plus a premium in order to approximate high-quality corporate bond rates. In estimating

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

the discount rate, CSS (Europe) Ltd takes into consideration the relationship between the corporate bonds and the timing and amount of the future cash outflows on its benefit payments.

#### ***Tax contingencies***

Significant judgment is required in determining the effective tax rate and in evaluating certain tax positions. The Bank may accrue for tax contingencies despite the belief that positions taken in tax returns are always fully supportable. Tax contingency accruals are adjusted due to changing facts and circumstances, such as case law, progress of tax authority audits or when an event occurs 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.

#### ***Share based payments***

The Bank uses the liability method to account for its share based compensation plans, which requires the Bank's current obligation under these plans to be recorded at estimated fair value. The parameters the Bank 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 Bank 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.

### 4. Interest income and interest expense

	2006	2005
	£000	£000
Interest income on loans	40,940	33,856
Securities purchased under resale agreements	38,767	23,923
Other	5,467	6,624
<b>Total interest income</b>	<b>85,174</b>	<b>64,403</b>
Interest expense on deposits	(73,662)	(55,351)
Other	(369)	(244)
<b>Total interest expense</b>	<b>(74,031)</b>	<b>(55,595)</b>
<b>Net interest income</b>	<b>11,143</b>	<b>8,808</b>

### 5. Non-interest revenues and total operating expenses

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

	2006	2005
	£000	£000
Commissions from lending business		
Investment and portfolio management fees	15,804	9,880
Commissions for other securities business	5,612	2,023
Fees for other customer services	4,967	2,879
<b>Commissions and fees</b>	<b>26,383</b>	<b>14,782</b>

The following table sets forth the details of other revenues:

	2006	2005
	£000	£000
Foreign exchange income	3,425	2,652
Other	452	752
<b>Other revenues</b>	<b>3,877</b>	<b>3,404</b>

## 5. Non-interest revenues and total operating expenses (continued)

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

	2006	2005
	£000	£000
Salaries and bonuses	22,151	17,971
Social security	4,005	2,510
Pension	2,025	1,433
Other	730	329
<b>Compensation and benefits</b>	<b>28,911</b>	<b>22,243</b>

The following table sets forth the details of other expenses:

	2006	2005
	£000	£000
Occupancy expenses	1,380	2,127
IT, machinery, etc.	414	758
Depreciation expenses	988	913
Provisions and losses	2,375	1,838
Commission expenses	219	169
Travel and entertainment	1,534	1,912
Audit fees	49	47
Professional services	3,593	1,143
Other	3,642	4,076
<b>Other expenses</b>	<b>14,194</b>	<b>12,983</b>

## 6. Income tax benefit

	2006	2005
	£000	£000
Current tax	1,522	(256)
Adjustments in respect of previous years	118	(737)
<b>Total current tax</b>	<b>1,640</b>	<b>(993)</b>
Origination and reversal of temporary differences	(1,837)	(2,180)
Adjustments in respect of previous years	140	615
<b>Total deferred tax</b>	<b>(1,697)</b>	<b>(1,565)</b>
<b>Income tax benefit</b>	<b>(57)</b>	<b>(2,558)</b>

No current tax nor deferred tax was credited directly to equity.

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

	2006	2005
	£000	£000
Loss before tax	(1,702)	(8,232)
Loss before tax multiplied by the UK statutory rate of Corporation tax at the rate 30% (2005: 30%)	(510)	(2,469)
Other permanent differences	195	33
Adjustments to current tax in respect of previous years	118	(737)
Adjustments to deferred tax in respect of previous years	140	615
<b>Income tax benefit</b>	<b>(57)</b>	<b>(2,558)</b>

## 7. Securities purchased under resale agreements

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

	2006 £000	2005 £000
Securities purchased under resale agreements	920,979	915,798

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

## 8. Trading activities

The following table summarises the details of trading assets and liabilities:

	2006 £000	2005 £000
<b>Trading assets</b>		
Positive replacement values of derivative trading positions	12,349	7,146
<b>Trading liabilities</b>		
Negative replacement values of derivative trading positions	12,069	6,878

## 9. Loans

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

	2006 £000	2005 £000
Banks	-	1,024
Commercial	52,040	36,199
Consumer	17,832	31,583
<b>United Kingdom</b>	<b>69,872</b>	<b>68,806</b>
Banks	3,817	-
Commercial	259,932	199,685
Consumer	80,341	99,457
Public authorities	-	2,683
<b>Foreign</b>	<b>344,090</b>	<b>301,825</b>
<b>Loans</b>	<b>413,962</b>	<b>370,631</b>

The following table analyses gross loans by maturity:

	2006 £000	2005 £000
Due within one month	164,407	123,342
One month to three months	168,165	117,297
Three months to one year	81,390	70,032
One to five years	-	59,960
<b>Total gross loans</b>	<b>413,962</b>	<b>370,631</b>

## 10. Investments in subsidiaries

The Company has two subsidiaries, Buckmore Nominees Limited (non-trading) and CS London Nominees Limited (non-trading).

### Buckmore Nominees Limited

The wholly owned company is incorporated and operates in the United Kingdom and is registered in England and Wales.

The company has not been consolidated into the statutory accounts of the Company for the year ended 2006, as the net worth of the entity is £2, which is not considered material (2005: £2).

### CS London Nominees Limited

The wholly owned company is incorporated and operates in the United Kingdom and is registered in England and Wales.

The company has not been consolidated into the statutory accounts of the company for the year ended 31 December 2006, as the net worth of the entity is £100, which is not considered material (2005: £100).

## 11. Deferred tax assets

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

The movement for the year on the deferred tax account is as follows:

	<b>2006</b>	<b>2005</b>
	<b>£000</b>	<b>£000</b>
Restated balance at 1 January under IFRS	5,314	3,749
Credit to income for the year	1,697	1,565
<b>At the end of the year</b>	<b>7,010</b>	<b>5,314</b>

Deferred tax assets are attributable to the following items:

	<b>2006</b>	<b>2005</b>
	<b>£000</b>	<b>£000</b>
Provisions	1,904	1,807
Decelerated tax depreciation	2,283	2,064
Stock based compensation	2,639	1,443
Other short term temporary differences	184	0
<b>At end of the year</b>	<b>7,010</b>	<b>5,314</b>

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

	<b>2006</b>	<b>2005</b>
	<b>£000</b>	<b>£000</b>
Provisions	98	135
Decelerated tax depreciation	219	(4)
Stock based compensation	1,196	1,434
Other short term temporary differences	184	0
<b>Total deferred tax benefit in the income statement</b>	<b>1,697</b>	<b>1,565</b>

### 11. Deferred tax assets (continued)

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 Bank 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 Bank will receive full consideration for any group relief surrendered.

### 12. Other assets

	2006	2005
	£000	£000
Brokerage receivables (note 13)	27	985
Interest and fees receivable	3,925	4,461
Amounts owed by group undertakings	4,177	1,990
Group relief from other group undertakings	982	1,029
Other	1,735	100
<b>Total</b>	<b>10,846</b>	<b>8,565</b>

### 13. Brokerage receivables and brokerage payables

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

All brokerage payables and receivables balances are current.

	2006	2005
	£000	£000
<b>Brokerage receivables</b>		
Due from banks, brokers and dealers	27	985
<b>Brokerage payables</b>		
Due to customers	(27)	(985)



#### 14. Intangible assets

	Internally developed software 2006 £000	Internally developed software 2005 £000
<b>Cost:</b>		
As at 1 January	2,929	2,731
Additions	6	505
Write-offs	-	(307)
<b>As at 31 December</b>	<b>2,935</b>	<b>2,929</b>
<b>Accumulated depreciation:</b>		
As at 1 January	(1,142)	(591)
Charge for the year	(976)	(858)
Write-offs	-	307
<b>As at 31 December</b>	<b>(2,118)</b>	<b>(1,142)</b>
<b>Net book value as at 31 December</b>	<b>817</b>	<b>1,787</b>

#### 15. Equipment

	Furniture & equipment £000	Computer equipment £000	Total £000
<b>2006</b>			
<b>Cost:</b>			
As at 1 January 2006	-	71	71
Additions	-	14	14
Write-offs	-	-	-
<b>As at 31 December 2006</b>	<b>-</b>	<b>85</b>	<b>85</b>
<b>Accumulated depreciation:</b>			
As at 1 January 2006	-	(50)	(50)
Write-offs	-	-	-
Charge for the year	-	(18)	(18)
<b>As at 31 December 2006</b>	<b>-</b>	<b>(68)</b>	<b>(68)</b>
<b>Net book value as at 31 December 2006</b>	<b>-</b>	<b>17</b>	<b>17</b>

## 15. Equipment (continued)

2005	Furniture & equipment £000	Computer equipment £000	Total £000
<b>Cost:</b>			
As at 1 January 2005	331	437	768
Transferred from offshore	-	249	249
Additions	-	10	10
Write-offs	(331)	(625)	(956)
<b>As at 31 December 2005</b>	<b>-</b>	<b>71</b>	<b>71</b>
<b>Accumulated depreciation:</b>			
As at 1 January 2005	(331)	(437)	(768)
Transferred from offshore	-	(183)	(183)
Write-offs	331	625	956
Charge for the year	-	(55)	(55)
<b>As at 31 December 2005</b>	<b>-</b>	<b>(50)</b>	<b>(50)</b>
<b>Net book value as at 31 December 2005</b>	<b>-</b>	<b>21</b>	<b>21</b>

## 16. Deposits

	2006 £000	2005 £000
Interest-bearing demand deposits	203,782	199,548
Savings deposits	3,005	2,669
Time deposits	1,156,186	1,125,440
<b>Total deposits</b>	<b>1,362,973</b>	<b>1,327,657</b>

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

	2006 £000	2005 £000
Due within one month	863,305	877,846
One month to three months	196,146	171,184
Three months to one year	96,735	73,751
One to five years	-	2,659
<b>Total time deposits</b>	<b>1,156,186</b>	<b>1,125,440</b>

## 17. Other liabilities

	2006 £000	2005 £000
Brokerage payables (note 13)	27	985
Amounts due to holding company	-	21,600
Amounts owed to group undertakings	11,714	8,295
Interest and fees payable	-	1,327
IPB cash components	9,600	4,770
Share award obligations	8,955	4,808
Other	8,924	3,176
<b>Total other liabilities</b>	<b>39,220</b>	<b>44,961</b>

## 18. Provisions

	Legal	Property	Total 2006	Total 2005
	£000	£000	£000	£000
Balance at beginning of year	770	5,253	6,023	5,572
Increase in provisions	465	1,956	2,421	1,575
Transfer	-	-	-	144
Amount released during the year	-	-	-	(71)
Amount utilised during the year	(439)	(853)	(1,292)	(1,664)
Effect of changes in discount rate and passage of time	-	(8)	(8)	334
Effects of changes in foreign exchange rates	(102)	-	(102)	133
<b>Balance at the end of the year</b>	<b>694</b>	<b>6,348</b>	<b>7,042</b>	<b>6,023</b>

During 2006, a specific legal provision was made to cover potential compensation due in relation to potential misrepresentation of a client and failure of ongoing advisory responsibilities.

At the year end a provision exists for the future rental and related costs of leasehold property of £6,347,661 (2005: £5,253,000) where it is vacant, surplus to the Bank's requirement or where the leasehold property has been sublet at a loss. This includes an additional provision of £1,956,000 which was calculated at year end with respect to a change in tenant and the associated costs incurred in finding the new tenant. The original provision was created in 1997 for £8.5 million. The lease is due to expire in September 2015. A discount rate of 6% has been used in calculating the amount of the current provision.

There is a further specific provision to settle potential claims against the bank of £248,706 (2005: £770,187) at year end. This was caused by the default of a fund manager in 2005.

## 19. Called-up share capital

	2006 £000	2005 £000
<b>Authorised:</b>		
<b>Equity</b>		
Ordinary shares of £1 each	150,000	100,000
<b>Allotted, called up and fully paid:</b>		
<b>Ordinary shares of £1 each</b>		
Balance at beginning of year	80,700	36,500
Issued during the year	21,600	44,200
Balance at the end of the year	<b>102,300</b>	<b>80,700</b>

On 12 January 2006, the authorised share capital was increased to £150,000,000. On 12 January 2006, 21,600,000 shares of £1 each were issued.

On 31 May 2006 a £40 million subordinated debt facility was granted to the Company by Credit Suisse First Boston Finance BV maturing 31 May 2031. As at 31 December 2006, this facility was undrawn.

## 20. Stock awards

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

The Bank also awarded Performance Incentive Plan units (PIPs) as part of its long-term incentive program in 2006 and 2005, based upon individuals' performance in 2005 and 2004, respectively. Each PIP 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 Bank and certain other conditions such as restrictive covenants and forfeiture provisions. Compensation expense for PIPs is adjusted annually based on management's estimate of earnings performance over the five year vesting period.

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

Total compensation expense for stock awards recognised during 2006 and 2005 was £5,065,285 and £4,033,000 respectively.

The total stock award liability recorded as at 31 December 2006 was £8,955,065 (2005: £4,808,000). The fair value used to calculate the stock award liability was the closing Credit Suisse Group share prices as at 31 December 2006 CHF85.45 (2005: CHF67.00). The average weighted fair value of awards granted in 2006 was CHF72.92 (2005: CHF47.73). The intrinsic value of vested share based awards outstanding as at year end was £2,632,726 (2005: £1,651,000).

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

<b>Stock excluding PIP units</b>	<b>2006</b>	<b>2005</b>
	<b>No. of</b>	<b>No. of</b>
	<b>shares</b>	<b>shares</b>
As at 1 January	19,398	12,577
Shares transferred in*	64,743	-
Granted	84,382	14,182
Delivered	(9,597)	(7,008)
Forfeited	(1,714)	(353)
<b>At 31 December</b>	<b>157,212</b>	<b>19,398</b>
 <b>PIP units</b>	 <b>2006</b>	 <b>2005</b>
	<b>No. of</b>	<b>No. of</b>
	<b>shares</b>	<b>shares</b>
As at 1 January	27,107	-
Granted	11,764	27,107
Delivered	-	-
Forfeited	-	-
<b>At 31 December</b>	<b>38,871</b>	<b>27,107</b>

\* Effective 1 January 2006, a number of employees previously employed by Credit Suisse Securities (Europe) Limited transferred their employment contracts and share awards to Credit Suisse (UK) Limited.

There were no share options in 2006 (2005: Nil).

## 21. Retirement benefit obligations

The following disclosures contain the balances for the entire defined benefit plan sponsored by Credit Suisse Securities (Europe) Ltd., of which the Bank is one of many participants, who are all related parties under common control. The Bank accounts for its share of the plan using defined contribution accounting.

### Defined benefit pension

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

	Defined benefit pension plans	
	2006 £000	2005 £000
Projected benefit obligation - beginning of the measurement period	610,277	506,947
Service cost	1,355	2,798
Interest cost	28,566	27,876
Actuarial losses	63,253	77,276
Benefit payments	(3,994)	(4,620)
<b>Projected benefit obligation – end of the measurement period</b>	<b>699,457</b>	<b>610,277</b>
Fair value of plan assets - beginning of the measurement period	463,072	391,319
Actual return on plan assets	44,913	71,977
Contributions	4,284	4,396
Benefit payments	(3,994)	(4,620)
<b>Fair value of plan assets – end of the measurement period</b>	<b>508,275</b>	<b>463,072</b>

In 2007 the Group expects to contribute £4.4m to the UK defined benefit pension plans. The Group is currently in discussion with the Pension Fund Trustees in respect of additional funding in 2007 to the UK defined benefit pension plan. The Group envisages contributing an amount of £140m however this amount will be finalised on the 31 March 2007.

### Assumptions

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

31 December, in %	2006	2005
<b>Benefit obligations</b>		
Discount rate	5.10	4.70
Salary increases	4.60	4.25
<b>Net periodic pension cost</b>		
Discount rate	4.70	5.50
Salary increases	4.25	4.25
Expected long-term rate of return on plan assets	6.70	7.25

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

## 21. Retirement benefit obligations (continued)

### Plan assets and investment strategy

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

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

### Defined contribution pension plans

The Bank also contributes to various defined contribution pensions primarily in the United Kingdom. The contributions in these plans during 2006 and 2005 were £2,019,000 and £1,433,000 respectively.

## 22. Related party transactions

CSUK Limited is controlled by Credit Suisse Zurich which owns 100% of the ordinary shares, the ultimate parent being Credit Suisse Group, incorporated in Switzerland.

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

## 22. Related party transactions (continued)

### a) Related party assets and liabilities

Assets	2006				2005			
	Parent £000	Fellow group companies £000	Total £000	Average £000	Parent £000	Fellow group companies £000	Total £000	Average £000
Cash and due from banks	-	-	-	322	392	-	392	218
Interest-bearing deposits with banks	-	129,448	129,448	114,474	-	133,150	133,150	178,719
Securities purchased under resale agreements	-	920,979	920,979	944,770	-	915,798	915,798	754,823
Trading assets	-	5,457	5,457	5,618	-	2,079	2,079	2,115
Loans	-	-	-	56	-	-	-	313
Other assets	789	2,657	3,446	1,972	307	1,683	1,990	3,682
<b>Total assets</b>	<b>789</b>	<b>1,058,541</b>	<b>1,059,330</b>	<b>1,067,212</b>	<b>699</b>	<b>1,052,710</b>	<b>1,053,409</b>	<b>939,870</b>
Liabilities	2006				2005			
	Parent £000	Fellow group companies £000	Total £000	Average £000	Parent £000	Fellow group companies £000	Total £000	Average £000
Deposits	-	256,596	256,596	304,511	-	273,133	273,133	345,940
Trading liabilities	-	5,047	5,047	3,106	-	3,709	3,709	3,443
Other liabilities	-	10,701	10,701	12,756	21,600	9,200	30,800	15,488
<b>Total liabilities</b>	<b>-</b>	<b>272,344</b>	<b>272,344</b>	<b>320,373</b>	<b>21,600</b>	<b>286,042</b>	<b>307,642</b>	<b>364,871</b>

The averages above have been calculated using month end balances.

22. Related party transactions (continued)

b) Related party revenues and expenses

	2006				2005			
	Parent £000	Fellow group companies £000	Total £000	Average £000	Parent £000	Fellow group companies £000	Total £000	Average £000
Interest income	-	43,366	43,366	22,882	-	29,690	29,690	15,778
Interest expense	-	(11,437)	(11,437)	(6,084)	-	(11,708)	(11,708)	(7,487)
Net interest income	-	31,929	31,929	16,798	-	17,982	17,982	8,291
Fees and commissions	2,457	2,770	5,227	2,292	541	1,921	2,462	1,013
Total non-interest revenues	2,457	2,770	5,227	2,292	541	1,921	2,462	1,013
Total operating income	2,457	34,699	37,156	19,090	541	19,903	20,444	9,304
Total operating expenses	-	(1,529)	(1,529)	(1,484)	-	(386)	(386)	(1,554)

The averages above have been calculated using month end balances.



## 22. Related party transactions (continued)

### c) Related party off balance sheet transactions

	2006	2005
	£000	£000
Derivatives notional amounts	530,314	397,210

The above table sets forth all related party off balance sheet transactions with fellow group companies.

### d) Remuneration

#### Remuneration of Directors

	2006	2005
	£000	£000
Directors' emoluments	679	604
Amounts receivable under long term incentive schemes	351	117
Compensation for loss of office	24	-
	1,054	721
Bank contributions to money purchase pension schemes	31	41
	1,085	762

Under IFRS the aggregate value of compensation provided in the accounts for 2006 for directors was £935,090 (2005: £880,000).

#### Remuneration of key management personnel

	2006	2005
	£000	£000
Emoluments	1,226	623
Amounts receivable under long term incentive schemes	1,153	215
Compensation for loss of office	29	-
	2,408	838
Bank contributions to money purchase pension schemes	48	42
	2,456	880

## 22. Related Party Transactions (continued)

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

The aggregate of emoluments and amounts receivable under long term incentive schemes of the highest paid director was £662,321 (2005: £399,000). The highest paid director was a member of the defined contribution scheme and the contribution paid during the year for the defined contribution pension scheme was £9,563 (2005: £17,000).

During the year the highest paid director received an entitlement to shares under a long term incentive scheme.

	Number of directors 2006	Number of directors 2005
Retirement benefits are accruing to the following number of directors under defined contribution schemes	4	4
The number of directors who exercised share options	-	-
Directors in respect of whom services were received or receivable under long term incentive schemes	4	4

### e) Loans and advances to directors and key management personnel

There were no loans outstanding to or due from Directors or Key Management Personnel of the Bank at 31 December 2006 (2005: Nil).

## 23. Employees

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

	2006 Number	2005 Number
Front office	92	65
Back office	114	166
	<b>206</b>	<b>231</b>

CSUK employees conduct work for both CSUK and Credit Suisse Securities (Europe) Ltd. Employee costs are allocated to each entity on a percentage basis based on a revenue statistic. The average number of employees (380.9 calculated as the total number of employees per month divided by the number of months) is multiplied by this statistic (54%) to reflect the CSUK average headcount for the year. In 2005 there was clearer differentiation between CSUK and other employees so no allocation statistic was necessary.

## 24. Derivatives activities

Derivatives are generally either privately negotiated over-the counter (OTC) contracts or standard contracts transacted through regulated exchanges. The Bank's most frequently used freestanding derivative products, entered into for trading and risk management purposes are foreign exchange forward contracts, foreign currency options and equity / indexed related futures and options. These derivatives are designated as trading activities.

## 24. Derivatives activities (continued)

The Bank is active in most of the principal trading markets and transacts in many popular trading products. As noted above, this includes the use of futures, options and forward rate agreements in connection with its sales and trading activities.

The Bank enters into derivative contracts either as:

- agent on behalf of clients; or
- principal where any market risk is backed out with other entities.

The following table sets forth details of trading derivatives instruments:

	31 December 2006			31 December 2005		
	Notional amount	Positive replacement value	Negative replacement value	Notional amount	Positive replacement value	Negative replacement value
	£000	£000	£000	£000	£000	£000
Options bought and sold	77,304	462	462	43,729	46	46
Foreign exchange forward contracts	960,821	9,937	9,657	723,637	5,901	5,633
<b>Foreign exchange products</b>	<b>1,038,125</b>	<b>10,399</b>	<b>10,119</b>	<b>767,366</b>	<b>5,947</b>	<b>5,679</b>
Futures	1,004	117	117	6,302	47	47
Options bought and sold	91,640	1,833	1,833	75,325	1,152	1,152
<b>Total equity / indexed- related products</b>	<b>92,644</b>	<b>1,950</b>	<b>1,950</b>	<b>81,627</b>	<b>1,199</b>	<b>1,199</b>
<b>Total derivative instruments</b>	<b>1,130,769</b>	<b>12,349</b>	<b>12,069</b>	<b>848,993</b>	<b>7,146</b>	<b>6,878</b>

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

	Gross positive replacement value			
	Remaining life			2006
	<1 year	1-5 years	>5 years	Total
	£000	£000	£000	£000
Foreign exchange	10,399	-	-	10,399
Equities / indices	1,837	113	-	1,950
<b>Total</b>	<b>12,236</b>	<b>113</b>	<b>-</b>	<b>12,349</b>

	Gross negative replacement value			
	Remaining life			2006
	<1 year	1-5 years	>5 years	Total
	£000	£000	£000	£000
Foreign exchange	10,119	-	-	10,119
Equities / indices	1,837	113	-	1,950
<b>Total</b>	<b>11,956</b>	<b>113</b>	<b>-</b>	<b>12,069</b>

	Gross positive replacement value			
	Remaining life			2005
	<1 year	1-5 years	>5 years	Total
	£000	£000	£000	£000
Foreign exchange	5,947	-	-	5,947
Equities / indices	1,199	-	-	1,199
<b>Total</b>	<b>7,146</b>	<b>-</b>	<b>-</b>	<b>7,146</b>

## 24. Derivatives Activities (continued)

	Gross negative replacement value			2005 Total £000
	Remaining life			
	<1 year	1-5 years	>5 years	
	£000	£000	£000	
Foreign exchange	5,679	-	-	5,679
Equities / indices	1,199	-	-	1,199
<b>Total</b>	<b>6,878</b>	<b>-</b>	<b>-</b>	<b>6,878</b>

## 25. Guarantees and Commitments

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

### 31 December 2006

	Maturity <1 year £000	Maturity 1-3 years £000	Maturity 3-5 years £000	Maturity >5 years £000	Total gross amount £000	Total net amount £000	Collateral received £000	Carrying value £000
Credit guarantees and similar instruments	14,189	3,885	3,177	6,699	27,950	27,950	27,943	7
<b>Total guarantees</b>	<b>14,189</b>	<b>3,885</b>	<b>3,177</b>	<b>6,699</b>	<b>27,950</b>	<b>27,950</b>	<b>27,943</b>	<b>7</b>
Loan commitments	7,814	8,566	12,005	25	28,410	28,410	-	28,410
<b>Total other commitments</b>	<b>7,814</b>	<b>8,566</b>	<b>12,005</b>	<b>25</b>	<b>28,410</b>	<b>28,410</b>	<b>-</b>	<b>28,410</b>

### 31 December 2005

	Maturity <1 year £000	Maturity 1-3 years £000	Maturity 3-5 years £000	Maturity >5 years £000	Total gross amount £000	Total net amount £000	Collateral received £000	Carrying value £000
Credit guarantees and similar instruments	8,245	1,674	385	8,631	18,935	18,935	18,891	44
<b>Total guarantees</b>	<b>8,245</b>	<b>1,674</b>	<b>385</b>	<b>8,631</b>	<b>18,935</b>	<b>18,935</b>	<b>18,891</b>	<b>44</b>
Loan commitments	1,824	18,560	21,412	2,056	43,852	43,852	-	43,852
<b>Total other commitments</b>	<b>1,824</b>	<b>18,560</b>	<b>21,412</b>	<b>2,056</b>	<b>43,852</b>	<b>43,852</b>	<b>-</b>	<b>43,852</b>

**Credit guarantees** are contracts that require the Bank to make payments, should a third party fail to do so under a specified existing credit obligation.

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

## 25. Guarantees and commitments (continued)

### Lease commitments

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

	2006
	£000
As at 31 December 2006	
2007	1,484
2008	1,484
2009	1,484
2010	1,484
Thereafter	7,420
<b>Total future minimum lease commitments</b>	<b>13,356</b>

	2005
	£000
As at 31 December 2005	
2006	1,453
2007	1,453
2008	1,453
2009	1,453
Thereafter	8,533
<b>Total future minimum lease commitments</b>	<b>14,345</b>

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

	2006	2005
	£000	£000
Minimum rentals	1,453	1,453
Sublease rental income	(600)	(800)
<b>Total net rental expenses</b>	<b>853</b>	<b>653</b>

## 26. 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 Bank's financial statements. All non-financial instruments such as deferred tax assets, property, plant and equipment 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 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 one year, 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 one year, fair value is calculated using a discounted cash flow analysis.

## 26. Fair value of financial instruments (continued)

For 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 fair values of positive replacement values of derivative instruments and negative replacement values of derivative instruments 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 one year, 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 one year, fair value is calculated using a discounted cash flow analysis.

	2006		2005	
	Book value £000	Fair value £000	Book value £000	Fair value £000
<b>Financial assets</b>				
Cash and due from banks	14,380	14,380	7,304	7,304
Interest-bearing deposits with banks	129,448	129,448	137,502	137,502
Securities purchased under resale agreements	920,979	920,979	915,798	915,798
Trading assets	12,349	12,349	7,146	7,146
Loans	413,962	413,962	370,631	370,624
<b>Financial Liabilities</b>				
Deposits	1,362,973	1,362,973	1,327,657	1,327,651
Trading liabilities	12,069	12,069	6,878	6,878

## 27. Assets pledged or assigned

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

	2006 £000	2005 £000
Fair value of collateral received with the right to sell or repledge	920,979	917,858

As at 31 December 2006 and 2005, collateral was received in connection with resale agreements. As at these dates, none of the collateral received by the Bank had been sold or repledged.

The Bank has no cash restricted under UK or foreign banking regulations.

## 28. Financial instruments risk position

### Overview

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

### Risk management principles

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

- Protection of financial strength: Credit Suisse Group manages risk in order to limit the impact of potentially adverse events on the Group's capital and income streams. 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 units 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 define risk appetite and assessing the overall risk profile of the Group.

### Risk management oversight

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

Risk management oversight at the Credit Suisse management levels as at 1 January 2007

- Credit Suisse Executive Management (Chief Executive Officers and Executive Boards): Responsible for implementing the legal entity's strategy and actively managing its portfolio of businesses and its risk profile to ensure that risk and return are balanced and appropriate for current market conditions.
- Strategic Risk Management (SRM): At Credit Suisse, SRM is a separate function with responsibility for assessing the overall risk profile both on a group-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.

## 28. Financial instruments risk position (continued)

- Credit Risk Management ('CRM'): CRM is an separate function headed by the Chief Credit Officer ('CCO') with responsibility for approving credit limits, monitoring and managing individual exposures and assessing and managing the quality of the segmental and business area's credit portfolios. CRM reports to the Chief Risk Officer of Credit Suisse.

Credit Suisse risk management committees as at 1 January 2007

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

### Risk limits

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

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

### Economic risk capital

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

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

- Position risk ERC — the level of unexpected loss in economic value on the Group's portfolio of positions over a one-year horizon that is exceeded with a given, small probability (1% for risk management purposes; 0.03% for capital management purposes).



## 28. Financial instruments risk position (continued)

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

### a) Market risk

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.

The Bank has a policy of not taking proprietary market risk positions. Trading transactions are generally entered into on either an agency or back-to-back basis. There are small market risk limits (foreign exchange and interest rate exposure) to facilitate the bulking of small client positions.

### b) Currency risk

The Bank takes on exposure to the effects of fluctuations in the prevailing foreign currency exchange rates on its financial position and cash flows. The 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 table below summarises the Bank's exposure to foreign currency exchange rate risk at 31 December 2006 and 2005. Included in the table are the Bank's assets and liabilities at carrying amounts, categorised by currency.

Currency	31 December 2006			31 December 2005		
	Assets £000	Liabilities £000	Net £000	Assets £000	Liabilities £000	Net £000
US dollar	813,474	(813,591)	(117)	623,724	(623,800)	(76)
Canadian dollar	13,467	(13,474)	(7)	15,075	(15,070)	(5)
Danish kroner	2	(2)	-	2	(2)	-
Japanese yen	15,103	(15,094)	9	9,014	(9,004)	10
Swedish kroner	3,986	(3,890)	96	1,744	(1,734)	10
Swiss franc	42,409	(42,356)	53	12,505	(12,476)	29
Australian dollar	4,854	(4,847)	7	2,080	(2,079)	1
New Zealand dollar	727	(726)	1	1,305	(1,301)	4
Norwegian krone	2,657	(2,661)	(4)	2,657	(2,653)	4
South African rand	1,606	(1,605)	1	2,044	(2,040)	4
Singapore dollar	13,974	(13,972)	2	12,725	(12,714)	11
Turkish lira	1,007	(1,007)	-	1,143	(1,138)	5
Euro	314,328	(314,317)	11	319,712	(319,678)	34
Other	939	(904)	35	150	(148)	2

## 28. Financial instruments risk position (continued)

### c) Credit risk

The Credit Risk Management team is an independent function headed by the Credit Unit Head with responsibility for approving credit limits, monitoring and managing individual exposures and assessing and managing the quality of the credit portfolio. They establish broad policies and guidelines governing the Bank's credit risk appetite. The Credit Risk Management team reports to Credit Risk Management in Zurich and is a part of the Chief Risk Officer (CRO) division within Shared Services. The CRO is responsible for establishing an organisational basis to manage all risk management matters of Credit Suisse through the four primary risk functions independent from the front office (SRM, RMM, CRM, BORO).

- Strategic Risk Management (SRM): SRM is responsible for assessing the overall risk profile on a bank-wide, portfolio level and for individual businesses, and recommending corrective action where necessary.
- Risk Measurement and Management (RMM): RMM is responsible for the measurement and reporting of credit risk, market risk, operational risk and economic risk capital data, managing risk limits and establishing policies on market risk and economic risk capital.
- Credit Risk Management (CRM): CRM is headed by the Chief Credit Officer with responsibility for approving credit limits, monitoring and managing individual exposures and assessing and managing the quality of the segment and business area's credit portfolios and allowances.
- Bank Operational Risk Oversight (BORO): BORO is responsible for oversight of the bank's operational risk, including, governance and policy aspects, development and reporting of key risk indicators as well as operational risk capital management and allocation.

### Definition of counterparty risk

Counterparty 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 recovery amount resulting from foreclosure, liquidation of collateral or the restructuring of the debtor company.

Credit risk exists within lending products, commitments and exposure arising from derivatives, foreign exchange and other transactions.

### Credit risk management approach

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

This credit risk management framework is regularly refined and covers all businesses that are exposed to credit risk. The framework is designed to cover all of the credit exposures in the Bank. The framework 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 Bank evaluates credit risk through a credit application request and approval process, ongoing credit reviews and counterparty monitoring and a credit quality review process. Experienced credit officers approve credit requests and assign internal ratings based on analysis and evaluation of the counterparty's creditworthiness and the type of credit transaction.

Each counterparty that generates a potential or actual credit risk exposure is assigned a risk rating. Additionally, the

## **28. Financial instruments risk position (continued)**

### **c) Credit risk (continued)**

Bank assigns an estimate of the expected loss on a transaction in the event of a counterparty default, based on the transaction structure. 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.

#### **Credit analysis methodology**

All counterparties are assigned a credit rating as noted above. The intensity and depth of analysis is related to the amount, duration and level of risk being proposed together with the perceived credit quality of the counterparty or issuer in question. Analysis consists of a quantitative and qualitative portion and strives to be forward looking, concentrating on economic trends and financial fundamentals. In addition, analysts make use of peer analysis, industry comparisons and other quantitative tools. Any final rating requires the consideration of qualitative factors relating to the counterparty, its industry and management.

In addition to the aforementioned analysis, all counterparty ratings are subject to the rating of the country in which they are domiciled. Analysis of key sovereign and economic issues for all jurisdictions is undertaken and these are considered when assigning the rating and risk appetite for individual counterparties.

A system of individual credit limits is used to manage individual counterparty credit risk. Certain other limits are also established to address concentration issues in the portfolio, including a comprehensive set of country and regional limits. Credit exposures to individual counterparties, products, industries, countries or segments and adherence to the related limits are monitored by credit officers.

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 business and economic conditions, historical experience, regulatory requirements and concentrations of credit volume by industry, country, product and counterparty rating.

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.

#### **Credit risk from lending and credit related transactions**

Credit risk associated with the Bank's lending and other credit related activities is a function of the amount and currency that the Bank has lent or committed to lend. Each facility is approved by the Credit Officer, Credit Unit Head, Zurich or the Chief Credit Officer in NY, dependent upon the aggregate size of total counterparty group exposure.

#### **Credit risk arising from trading positions and derivative transactions**

Credit risk associated with the Bank's trading and derivatives business is measured against counterparty limits on at least a daily basis. Credit risk is a function of the mark to market exposure and currency of the position, defined in terms of mark-to-market replacement value and potential exposure to maturity. The latter is based on the volatility of the underlying market factors including, for example, interest and foreign exchange rates. The Bank reduces credit risk by obtaining collateral based upon an individual assessment of counterparties individually. Generally the Bank accepts collateral in the form of cash, treasury instruments issued by G8 countries, and other marketable securities.

## 28. Financial instruments risk position (continued)

### c) Credit risk (continued)

The following table summarises the Bank's exposure to credit risk.

As at 31 December 2006	UK £000	Africa £000	Americas £000	Asia £000	Australasia £000	Europe £000	Middle East £000	Total £000
<b>Assets</b>								
Cash and due from banks	14,380	-	-	-	-	-	-	14,380
Interest-bearing deposits with banks	129,448	-	-	-	-	-	-	129,448
Securities purchased under resale agreements	920,979	-	-	-	-	-	-	920,979
Trading assets	7,371	27	2,608	273	-	1,963	107	12,349
Loans	52,300	5,272	146,530	5,939	292	112,075	91,554	413,962
Other assets	17,323	-	-	125	-	1,242	-	18,690
<b>Total assets</b>	<b>1,141,801</b>	<b>5,299</b>	<b>149,138</b>	<b>6,337</b>	<b>292</b>	<b>115,280</b>	<b>91,661</b>	<b>1,509,808</b>
<b>Liabilities</b>								
Deposits	437,551	15,586	436,873	39,904	568	317,107	115,384	1,362,973
Trading liabilities	7,127	1	530	16	-	4,326	69	12,069
Provisions	7,042	-	-	-	-	-	-	7,042
Other liabilities	38,175	-	-	-	-	1,045	-	39,220
<b>Total liabilities</b>	<b>489,895</b>	<b>15,587</b>	<b>437,403</b>	<b>39,920</b>	<b>568</b>	<b>322,478</b>	<b>115,453</b>	<b>1,421,304</b>
<b>Gap</b>	<b>651,906</b>	<b>(10,288)</b>	<b>(288,265)</b>	<b>(33,583)</b>	<b>(276)</b>	<b>(207,198)</b>	<b>(23,792)</b>	<b>88,504</b>
<b>As at 31 December 2005</b>	<b>UK £000</b>	<b>Africa £000</b>	<b>Americas £000</b>	<b>Asia £000</b>	<b>Australasia £000</b>	<b>Europe £000</b>	<b>Middle East £000</b>	<b>Total £000</b>
<b>Assets</b>								
Cash and due from banks	7,304	-	-	-	-	-	-	7,304
Interest-bearing deposits with banks	137,502	-	-	-	-	-	-	137,502
Securities purchased under resale agreements	915,798	-	-	-	-	-	-	915,798
Trading assets	2,935	18	794	128	-	2,977	294	7,146
Loans	25,761	3,630	138,485	6,078	52	110,982	85,642	370,631
Other assets	15,687	-	-	-	-	-	-	15,687
<b>Total assets</b>	<b>1,104,987</b>	<b>3,648</b>	<b>139,279</b>	<b>6,206</b>	<b>52</b>	<b>113,959</b>	<b>85,936</b>	<b>1,454,068</b>
<b>Liabilities</b>								
Deposits	451,979	11,791	363,417	38,023	654	335,747	126,046	1,327,657
Trading liabilities	4,579	42	918	109	-	820	410	6,878
Provisions	6,023	-	-	-	-	-	-	6,023
Other liabilities	44,961	-	-	-	-	-	-	44,961
<b>Total liabilities</b>	<b>507,542</b>	<b>11,833</b>	<b>364,335</b>	<b>38,132</b>	<b>654</b>	<b>336,567</b>	<b>126,456</b>	<b>1,385,519</b>
<b>Gap</b>	<b>597,445</b>	<b>(8,185)</b>	<b>(225,056)</b>	<b>(31,926)</b>	<b>(602)</b>	<b>(222,608)</b>	<b>(40,520)</b>	<b>68,549</b>

## **28. Financial instruments risk position (continued)**

### **d) Country risk**

Country risk is the risk of a substantial, systemic loss of value in the financial assets of a country or group of countries, which may be caused by dislocations in the credit, equity, and / or currency markets.

The Bank manages its country risk as part of credit risk management as discussed in section (c) of this note.

### **e) Settlement risk**

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

In those instances where market convention and / or products preclude a value-for-value exchange, the Bank 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.

## **28. Financial instruments risk position (continued)**

### **f) Legal risk**

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

The Bank 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 Bank's business activities or other sanctions. The Bank seeks to minimise such legal and regulatory 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.

### **g) Operational risk**

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

Operational risk is inherent in most aspects of the Bank'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 Bank therefore manages operational risk differently from market and credit risk. The Bank 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 Bank, 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 area takes responsibility for its own operational risks. The Bank have established a central team that focus on the coordination of a consistent policy, tools and practices throughout the organisation for the management, monitoring and reporting of relevant operational risks. This knowledge and experience are shared throughout the Bank to maintain a coordinated approach.

In addition to the monthly EMEA Risk Committee meetings on operational risk with representation from senior staff in all the relevant functions. Credit Suisse Group utilises a number of firm-wide tools for the management, measurement, monitoring and reporting of operational risk. These include risk and control assessments; the collection, reporting and analysis of internal and external loss data; and key risk indicator reporting.

## **28. Financial instruments risk position (continued)**

### **h) Reputational risk**

Credit Suisse UK'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 senior management and 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 Credit Suisse Group's Reputational Risk Approvers, each of whom is independent of the business divisions and has authority to approve, reject, or impose conditions on Credit Suisse's participation.

### **i) Liquidity risk**

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

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

- Those funds raised directly by Credit Suisse Group and its branches, with access to stable deposit-based core funds and the interbank markets. The Bank has direct access to Credit Suisse's bank sourced funding and therefore constitutes part of this 'Bank Funding Franchise'.
- Those funds raised by fellow subsidiaries, particularly CS (USA) Inc, the SEC registered US holding company – the 'Non-Bank Funding Franchise'.

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

### **j) Corporate asset and liability management**

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

### **k) Cash flow and fair value interest rate risk**

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

The table below summarises the Bank's exposure to interest rate risks. Included in the table are the Bank's assets and liabilities at carrying amounts, categorised by the earlier of contractual repricing or maturity dates.

28. Financial instruments risk position (continued)

As at 31 December 2006

Assets	Up to 1 month £000	1-3 months £000	3-12 months £000	1-5 years £000	Over 5 years £000	Non- interest bearing £000	Total £000
Cash and due from banks	-	-	-	-	-	14,380	14,380
Interest-bearing deposits with banks	89,682	18,540	21,226	-	-	-	129,448
Securities purchased under resale agreements	920,979	-	-	-	-	-	920,979
Trading assets	-	-	-	-	-	12,349	12,349
Loans	164,407	168,165	81,390	-	-	-	413,962
Other assets	-	-	-	-	-	18,690	18,690
<b>Total assets</b>	<b>1,175,068</b>	<b>186,705</b>	<b>102,616</b>	<b>-</b>	<b>-</b>	<b>45,419</b>	<b>1,509,808</b>
<b>Liabilities</b>							
Deposits	1,070,092	196,146	96,735	-	-	-	1,362,973
Trading liabilities	-	-	-	-	-	12,069	12,069
Provisions	-	-	-	-	-	7,042	7,042
Other liabilities	-	-	-	-	-	39,220	39,220
<b>Total liabilities</b>	<b>1,070,092</b>	<b>196,146</b>	<b>96,735</b>	<b>-</b>	<b>-</b>	<b>58,331</b>	<b>1,421,304</b>
<b>Total interest sensitivity gap</b>	<b>104,976</b>	<b>(9,441)</b>	<b>5,881</b>	<b>-</b>	<b>-</b>	<b>(12,912)</b>	<b>88,504</b>



28. Financial instruments risk position (continued)

As at 31 December 2005		Up to 1 month	1-3 months	3-12 months	1-5 years	Over 5 years	Non- interest bearing	Total
Assets	£000	£000	£000	£000	£000	£000	£000	£000
Cash and due from banks	-	-	-	-	-	-	7,304	7,304
Interest-bearing deposits with banks	99,450	31,436	6,616	-	-	-	-	137,502
Securities purchased under resale agreements	915,798	-	-	-	-	-	-	915,798
Trading assets	-	-	-	-	-	-	7,146	7,146
Loans	152,333	135,905	79,735	2,658	-	-	-	370,631
Other assets	-	-	-	-	-	-	15,687	15,687
<b>Total assets</b>	<b>1,167,581</b>	<b>167,341</b>	<b>86,351</b>	<b>2,658</b>	<b>-</b>	<b>-</b>	<b>30,137</b>	<b>1,454,068</b>
<b>Liabilities</b>								
Deposits	1,080,063	171,184	73,752	2,658	-	-	-	1,327,657
Trading liabilities	-	-	-	-	-	-	6,878	6,878
Provisions	-	-	-	-	-	-	6,023	6,023
Other liabilities	3,736	-	-	-	-	-	41,225	44,961
<b>Total liabilities</b>	<b>1,083,799</b>	<b>171,184</b>	<b>73,752</b>	<b>2,658</b>	<b>-</b>	<b>-</b>	<b>54,126</b>	<b>1,385,519</b>
<b>Total interest sensitivity gap</b>	<b>83,782</b>	<b>(3,843)</b>	<b>12,599</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>(23,989)</b>	<b>68,549</b>