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N M Rothschild & Sons Limited

Report of the Directors and Consolidated Financial Statements
for the year ended 31 March 2008

World Presence

The Rothschild banking group has offices in more than 30 countries and employs some 2,700 people around the world. Through its network of subsidiaries and affiliates, the Group provides commercial banking, treasury, investment banking, merchant banking, fund management, private banking and trust management services to governments, corporations and individuals worldwide.

North America

British Virgin Islands
Cayman Islands
Mexico City
Montréal
New York
Toronto
Washington

South America

Santiago
São Paulo

Europe and The Middle East

Abu Dhabi
Amsterdam
Athens
Barcelona
Birmingham
Brussels
Budapest
Dubai
Frankfurt
Geneva
Guernsey
Istanbul
Leeds
Lisbon
London
Luxembourg
Madrid
Manchester
Milan
Moscow
Paris
Prague
Rome
Stockholm
Warsaw
Zurich

Africa

Harare
Johannesburg

Asia Pacific

Beijing
Hong Kong
Jakarta
Kuala Lumpur
Melbourne
Mumbai
Shanghai
Singapore
Sydney
Tokyo

Directors

Chairman

David de Rothschild

Deputy Chairman

Anthony Alt

Executive Directors

Paul Barry
Anthony Chapman
Christopher Coleman
Andrew Didham
Timothy Hancock
Nigel Higgins
Joshua Hoffman
Anthony Salz
Nicholas Wrigley
Philip Yeates

Non-Executive Directors

Eric de Rothschild
Leopold de Rothschild
Lord George
Lord Guthrie
Sir Graham Hearne
Peter Smith
Sir Clive Whitmore

Chairman's Statement

Looking back on 2007, it is difficult not to be amazed at the abrupt change in trading conditions between the beginning and end of the financial year and the widely contrasting fortunes of different areas of the financial markets.

The Rothschild group primarily provides financial advice to corporations, governments and individuals across the globe. In these, our core markets, we saw strong conditions throughout most of the year. Record levels of fee income were achieved across both our corporate advisory and our wealth management businesses.

Against this favourable backdrop in our core advisory businesses, the US sub-prime credit shock and subsequent liquidity crisis dislocated trading conditions for our UK commercial banking business. Impairment losses were sustained against a number of securities, notwithstanding the generally high level of credit ratings of the securities held, in a small segment within our broadly based portfolio of commercial loan assets. This was a great disappointment against an otherwise exemplary credit performance for many years.

The results of N M Rothschild & Sons Limited, the UK bank, reflect these two contrasting developments. Our strong advisory revenues from M&A, restructuring and other corporate advice throughout Europe, partly offset by the specific loan losses, resulted in total operating income (including the continental European business shared with our Paris bank) of £377 million and a pre-tax profit of £28 million.

The balance sheet at 31 March 2008 showed high levels of liquidity with around £1 billion of cash on short-term deposit, reflecting our decision to maintain a conservative balance sheet while market conditions are so uncertain. We have also taken steps to lengthen the maturity profile of our funding base. There is some evidence that conditions are improving, but it is too early to judge the timing of a return to more stable markets.

Shareholders' funds within the UK bank have been increased by an injection of capital from the group holding company, in part to compensate for mark-to-market valuation adjustments on debt securities that are not considered to be impaired. This capital injection further reinforces the conservative balance sheet management of the UK bank and increases its regulatory solvency ratio to 13.3 per cent and the Tier 1 ratio to 9.6 per cent, well above the average within the industry.

Looking forward, our advisory businesses remain busy. Whilst we have witnessed a reduction in overall M&A activity, there remain sound opportunities for corporate buyers and a growing opportunity for our debt advisory and restructuring practice. Across Europe, Rothschild is the busiest house by number of transactions and the diversity of our business by geography, sector and transaction type will, we believe, partly shield us from the effect of the fall in the overall value of transactions executed.

Whilst the economic outlook in the UK remains uncertain, our commercial banking business will continue to be cautiously managed until there is greater clarity concerning the market environment. Some recovery in asset prices is expected and this should reverse some of the mark-to-market valuation adjustments made in

Chairman's Statement

the last financial year. In the meantime, we have closed the business unit that specialised in structured credit.

In the wider Rothschild group, we anticipate further growth in our successful wealth management businesses, which include both private banking and trust services, and in our merchant banking business where the group continues to take minority positions in the equity or debt of established businesses alongside trusted partners.

I am confident that our business model, focusing on providing independent, objective advice across both the corporate and the private client markets combined with targeted investment of our capital alongside partners, is a sound formula for the long term growth of the business. This confidence is underlined by the further reorganisation of the Family shareholdings during the year providing stability of ownership for the foreseeable future. As always, I should like to thank all of my fellow directors and staff who have made such a significant contribution this year.

David de Rothschild

30 June 2008

Business Review

Financial Review

Overview

The results of the N M Rothschild & Sons Limited group ("the Group") for the year ended 31 March 2008 reflect the turbulent financial market conditions experienced since August 2007 as a result of the global credit crunch. Although the Group's investment banking business in the UK and Europe continued to perform very strongly, generating record revenues, the banking business suffered impairment losses and adverse fair value movements as explained below. Profit after tax on continuing operations for the financial year was £25.0 million, compared to £57.1 million in the previous year.

The Group has taken steps to maintain a conservative funding and liquidity position despite the difficult conditions in money markets. The diversity and maturity of the funding base has been extended and reductions have been made in the size of our banking and treasury books. The balance sheet at 31 March 2008 showed high levels of liquidity, with cash of around £1 billion on short term deposit.

The Group's capital position has been strengthened by a capital injection of £103.1 million, and shareholders' funds at 31 March 2008 were £54.5 million above the previous year end. The risk asset ratio was 13.3 per cent at 31 March 2008, well above the minimum figure set by the FSA.

Income

Total operating income was £377.1 million, £24.9 million (6 per cent) below the prior year.

Operating income was reduced by fair value adjustments of £33.2 million in respect of investments in synthetic collateralised debt obligations (CDOs). These CDOs take on credit exposure in the form of credit derivatives and, under IFRS accounting rules, changes in their fair value must be recognised in the income statement. These investments are still performing and are not considered to be impaired and the reduction in their fair value is a consequence of current market conditions.

Net interest income of £65.1 million was in line with the prior year. Interest earnings on free capital increased because the amount of capital available for investment and the average rate earned were higher than in the previous year. Offsetting this, interest earnings in our banking and treasury businesses reduced. Margins in the banking business reduced as a result of fewer loan prepayments (which have the effect of accelerating the accounting recognition of yield-related fees) than in the prior year and because of an increased cost of funding associated with new committed borrowing facilities. Interest earnings in the treasury funding books also reduced, as a consequence of market conditions and the strategic decision to increase liquidity levels and the duration of funding.

Net fee and commission income was £325.1 million, 1 per cent below the prior year. The major proportion of fee income is derived from our investment banking business, which continued to perform very strongly, with Rothschild remaining the most active investment bank in European mergers and acquisitions for the sixth year running.

Operating income included a profit of £7.3 million on the disposal of an equity investment; details of this transaction are disclosed in note 31.

Expenses

Operating expenses reduced by £29.9 million (9 per cent) to £297.1 million. Within this total, staff costs reduced by £29.1 million (10 per cent) as a result of a decrease in directors' and employees' profit share partly as a consequence of the implementation of deferred profit share arrangements. Profit share payments reflect the performance of the Group's businesses and provide a significant degree of flexibility in the cost base.

Credit quality and impairment losses

It is the Group's policy to maintain a diverse and granular asset book, spread across sectors and geographies (though principally in the UK and continental Europe). The table opposite summarises the Group's treasury and banking assets as at 31 March 2008, showing asset type and diversity.

Treasury assets comprise primarily short term cash deposits and certificates of deposit (CDs) (£1.1 billion) and highly rated marketable securities (£1.2 billion), held for the management of liquidity.

Banking assets are spread between our main business areas of natural resources, investment property finance, leveraged finance and asset finance. The banking book is largely secured on a wide range of collateral types.

Natural Resources exposures, which include both mining finance and commodity trade finance, are well spread by metal and commodity. Leasing transactions written by our Five Arrows business are well spread by sector and well secured by assets, with immaterial residual risk.

Leveraged Finance exposures consist of participations in large European leveraged loans which are well spread by both borrower and sector with no material concentrations. Leveraged Finance assets, which are classified as "available for sale", have seen some reduction in value and this accounts for the majority of the change in fair value through reserves. No underwriting positions were held at the year end.

The Property book is supported by income generated by a large number of tenants from a wide variety of sectors. Exposures are broadly evenly split between the major property types and are located predominantly in the UK. There is minimal exposure to speculative development with development activity being undertaken subject to the existence of pre-sales, pre-lets or access to additional security and/or guarantees.

Treasury and banking assets as at 31 March 2008

	Net carrying value £m	%
Treasury book		
Short term interbank	1,108	25%
FRN & bond portfolio	1,210	28%
	2,318	**53%**
Banking book		
Natural resources - mining	90	2%
Natural resources - commodity finance	166	4%
Invoice discounting*	178	4%
Leasing & finance companies	220	5%
Leveraged finance - senior	385	9%
Leveraged finance - mezzanine	24	1%
Property - senior	669	15%
Property - mezzanine	54	1%
Structured financial products*	106	2%
Lending backed by cash or bank guarantees	112	3%
Other (mainly lending to related parties)	66	1%
	2,070	**47%**
Total	**4,388**	**100%**

* Wholly disposed of after 31 March 2008

The Structured Finance book incurred impairment losses on investments totalling £65.6 million in the year ended 31 March 2008. These losses related to investments in structured financial products such as CDOs which were of two types: (i) investments with exposure to US sub-prime mortgages; and (ii) investments with market value triggers which resulted in the vehicles being unwound and forced to sell the underlying assets at prevailing prices. All assets with risk exposure to US sub-prime mortgages or market value triggers have been written off or fully provided against.

Business Review

The small remaining portfolio of structured financial products is well diversified and largely investment grade. The entire portfolio was sold to an affiliated company outside the Group for cash subsequent to 31 March 2008. Accordingly, the Company and Group do not have any remaining exposure to these asset classes and the activity is closed.

The Group's investments in debt securities included in the table opposite are classified as "available for sale" under IFRS. They are carried at fair value in the balance sheet, and changes in fair value are recognised in reserves unless the assets are considered to be impaired; any impairment loss is recognised in the income statement. Fair value is determined by reference to quoted market prices, where available, or to other external sources including prices provided by deal arrangers. The extreme conditions in financial markets have resulted in the prices of certain classes of debt securities falling significantly, although these assets are not considered to be impaired. As at 31 March 2008, the unrealised fair value loss recorded in reserves was £69.8 million after tax, which we expect to be recovered in future periods. The Group recognises financial liabilities at amortised cost. Although the fair value of the Group's subordinated debt instruments and medium term notes as at 31 March 2008 was £85 million below their amortised cost as a result of market conditions, this gain has not been recognised in the financial statements.

The Group's exposure to credit risk is further analysed in note 2.2 to the financial statements.

Funding and liquidity

Conservative management of funding and liquidity is fundamental to the Group's strategy, with the key objective of maintaining a diversified funding base of appropriate maturity to fund the Group's banking and other activities.

The credit crunch has resulted in a severe restriction of liquidity in global money markets with an adverse impact on the availability and cost of funding. The Group has successfully taken steps to mitigate the effect of these extreme market conditions. Committed bank facilities have been negotiated and the amount and duration of sale and repurchase arrangements (which enable funding to be raised on the security of treasury assets) have been extended. There has been a reduction in treasury assets and the banking loan book; these reductions have been achieved with minimal cost. The Group has continued to build and diversify its customer deposit base, which increased over the year.

The funding base of the Group as at 31 March 2008 is summarised below.

Consolidated liabilities as at 31 March 2008

As a result of the various measures taken, the Group's liquidity position was very strong at 31 March 2008, with cash of £1.0 billion on short term bank deposit. Throughout the year, the Company's liquidity position remained well in excess of the minimum level prescribed by the FSA.

Business Review

Capital

Shareholders' funds at 31 March 2008 were £345.7 million compared to £291.2 million at the previous year end. The capital base was strengthened by a capital injection of £103.1 million from Rothschilds Continuation Holdings AG.

On 1 January 2008, the new Basel capital adequacy regime came into effect. The Group has adopted the standardised approach to credit risk and the basic indicator approach to operational risk. The risk asset ratio at 31 March 2008 was 13.3 per cent.

Disposal of subsidiary undertaking

On 31 March 2007, the Company disposed of its investment in N M Rothschild & Sons (CI) Limited (subsequently re-named Rothschild Bank International Limited) to fellow subsidiaries of Concordia BV. This group reorganisation was undertaken in order to align the ownership of the Rothschild group's wealth management businesses. Rothschild Bank International Limited has been treated as a "discontinued operation" in the financial statements, with its results disclosed separately in the income statement for the year ended 31 March 2007.

Property

During the year ended 31 March 2008, the Company vacated the New Court building, which is currently being demolished and which will be replaced with a new building designed by the internationally-acclaimed architect Rem Koolhaas. The Company has entered into an undertaking to lease the building, which is expected to be completed in 2011.

Business Review

Our success is based on the quality and value of our advice and our strength and depth around the world

Operating Divisions

Investment Banking

The investment banking division provides advice on mergers and acquisitions (M&A), valuations, strategic reviews, debt, restructuring solutions, equity capital markets and privatisations, in both domestic and cross border situations.

Rothschild focuses on providing the highest quality M&A advice and execution expertise, with specialist industry sector teams. Our approach is characterised by combining in-depth global sector knowledge with a detailed understanding of local markets. We place a strong emphasis on developing long term relationships with clients and a significant proportion of our revenue is from repeat business, evidencing the strength of our approach.

Over the last six years, Rothschild has consistently been financial adviser of choice to Europe's leading companies. In each of those years we have worked on more transactions than any other investment bank, making Rothschild the most active and experienced M&A financial adviser in Europe. According to Thomson Reuters, Rothschild was also the No.1 ranked investment bank for European M&A advice in 2007 in the business services, consumer products, healthcare, industrials, property, TMT, transport and utilities sectors by number of completed deals. We also held top 5 positions by number of completed deals in the financial institutions, mining and oil & gas sectors.

In addition to being financial adviser of choice in Europe in 2007, Rothschild was also recognised by its peers, with awards from FT & mergermarket for UK Financial Adviser of the Year, and UK Mid-Market Adviser of the Year; from Acquisitions Monthly for the Defence of the Year (Altadis) and Health & Pharma Adviser of the Year; and from The Banker for UK Deal of the Year for Tata Steel's acquisition of Corus.

Rothschild's excellence and leading positions in our chosen markets are demonstrated by the size and market profile of our long term clients, as well as more recent additions to our expanding client base. Headline deals during the year, which demonstrate the breadth, quality and value of our M&A expertise, include advising:

- ABN AMRO on the €71.0 billion acquisition by the RBS, Fortis and Santander consortium;
- Altadis on the defence and sale to Imperial Tobacco for €16.6 billion;

- Scottish & Newcastle on the £10.2 billion recommended cash offer from a consortium comprising Carlsberg and Heineken, following a successful defence;
- Hanson on the £9.6 billion recommended cash offer from Heidelberg Cement;
- Tata Steel on the £7.0 billion recommended offer for Corus;
- David Wilson and the Wilson family on the £2.5 billion recommended cash offer for Wilson Bowden from Barratt Developments;
- Univar on the €2.5 billion recommended cash offer from CVC Capital Partners;
- ENI on the £1.7 billion recommended cash offer for Burren Energy;
- Abbot Group on the £1.6 billion sale to First Reserve Corporation;
- Northgate Information Solutions on the £1.1 billion recommended cash offer from Kohlberg Kravis Roberts & Co;
- Meggitt on the US$1.8 billion acquisition of K&F Industries Holdings; and

Working together, creating intelligent solutions and delivering advantage

The Rothschild commitment is to the long term success of our clients' businesses

- Rio Tinto on the US$1.7 billion disposal of a 40 per cent interest in the Cortez goldmine to Barrick Gold.

Rothschild also provides independent, unconflicted debt advice and debt capital markets execution expertise to corporates, private equity houses and governments. We support our clients in raising funds across the entire spectrum of debt products, including bank debt, bonds, leasing and securitisation, as well as advising on all aspects of a transaction including credit ratings and derivatives strategy.

Rothschild is the world's largest and most active independent debt adviser and was recognised as the pre-eminent house in the field, being

Business Review

named Debt Advisory House of the year by Acquisitions Monthly. Mandates during the year include advising:

- Wm Morrison on the raising of a £1.1 billion debt facility;
- Canary Wharf Group on a £726 million debt financing and CMBS restructuring, including foreign exchange and interest rate hedging arrangements;
- Bridgepoint Capital on the financing for the acquisition of a 75 per cent stake in CTL Logistics, including deal contingent foreign exchange hedging;
- DIFC on its debut US$1.25 billion sukuk (Islamic bond), named as Deal of the Year by Islamic Finance News;
- Dublin Airport Authority on capital structure, financing strategy, treasury policy and interest rate hedging; and
- Northgate Information Solutions on the £500 million facility in connection with the acquisition of Arinso International, including foreign exchange and interest rate hedging arrangements.

Rothschild's restructuring team received recognition from Acquisitions Monthly for Restructuring Deal of the Year (Eurotunnel). Our restructuring bankers have significant experience in a variety of industries, presenting solutions to a wide range of companies, bondholders, creditors' committees, single creditor classes, secured creditors and groups of debtors with projects in Europe, America and Asia. Transactions during the year include acting as adviser to:

- the board of Amtel-Vredestein, the UK listed Dutch/Russian tyre manufacturing business, on restructuring discussions with Dutch and Russian lenders;
- the ad-hoc committee of Eurotunnel's creditors representing €2.5 billion of claims in its restructuring;
- Focus DIY on the restructuring and sale of the business to Cerberus;
- the administrators of Metronet BCV and SSL, the London Underground PPP infracos; and
- Sea Containers in relation to its JV interests with GE as part of Sea Containers' Chapter 11 proceedings.

In December 2007, Rothschild and ABN AMRO announced their intention to discontinue their international equity capital markets joint venture, ABN AMRO Rothschild, following the acquisition of ABN AMRO by the consortium of RBS, Fortis and Santander. Since the discontinuation of the ABN AMRO Rothschild joint venture, Rothschild's equity capital markets team has focused on reinforcing its position as the leading provider of unconflicted technical advice and independent market intelligence in European, Russian, Middle Eastern, Asian and Australian equity capital markets. We also provide execution support, project management and issue resolution to issuers planning to raise equity capital. Tactical advice on, for example, the appointment of banks and the timing of market execution is also a key feature of our services.

Transaction structures where Rothschild advises clients include international primary offerings (IPOs), capital increases and rights issues, demergers and spin-offs, auctions of listed securities, convertible and exchangeable bonds, and dual track exits.

Recent equity capital markets transactions include advising:

- Laboratorios Almirall on its €697 million IPO;
- 3i Investments on the £400 million IPO of 3i Quoted Private Equity;
- Mecom on its £570 million capital increase;
- Continental on its €1.5 billion capital increase; and
- Shire Pharmaceuticals on its US$1.1 billion convertible bond offering.

TK Maxx distribution centre

Commercial Banking

Rothschild's commercial banking activities include the arrangement and provision of senior and mezzanine debt in the property, leveraged finance and natural resources sectors. The corporate banking portfolio comprises mainly loans to medium and large UK and European companies, as well as corporate, project and structured commodity finance to resources companies worldwide.

The Property team arranges and provides funding for secured commercial property investment throughout the UK. In October 2007 it acquired a 51 per cent shareholding in Lanebridge, a property investment fund manager based near Manchester. Early in 2008 Lanebridge completed, on behalf of its investors, the acquisition of a shopping centre in Budapest, Hungary and the acquisition of a TK Maxx distribution centre at Newcastle-under-Lyme.

The Leveraged Finance team participates in the senior and mezzanine debt arranged for leveraged buy-outs in the UK and Europe and has no exposure to underwritten transactions. The team's strategy is to build a specialist debt fund

Rothschild uses a range of financing techniques to help our clients achieve the most beneficial funding structures, including traditional balance sheet funding and innovative use of debt capital markets

management business and during the year the team successfully closed its third Collateralised Loan Obligation ("CLO"), Contego CLO I B.V. and achieved a first close on its mezzanine fund, Quintus European Mezzanine Fund Limited Partnership, both on advantageous terms.

The Natural Resources team arranges and provides corporate and project financing to mining and metals companies worldwide and also provides structured commodity financing across the natural resources sector to major companies in emerging markets. The business is a leading financier of precious and base metal mining companies. During the year the team arranged a bridging facility for Farallon Resources to assist in the development of its Campo Morado zinc project in Mexico.

The Five Arrows Finance group of companies provide a range of asset financing facilities to UK companies, including leasing, invoice discounting and asset-based lending. Following a review of our activities in this area, we completed the sale of Five Arrows Commercial Finance Limited on 6 May 2008.

During the later part of the year, the team that focused on specialised structured credit instruments was disbanded and the activity ceased as a consequence of the severe dislocation in financial markets.

Risk Management

The Group Risk Director co-ordinates risk policy and promotes the development and maintenance of effective procedures throughout the Group. Our internal audit team reviews our internal control framework and reports its findings to the Audit Committee.

The responsibilities and membership of the Board Committees involved in the oversight of risk management are set out on pages 28 and 29.

Credit Risk

Credit risk arises from our lending and trading activities. The Credit Committee sets limits, reviews concentrations, monitors exceptions and makes recommendations on credit decisions to the Executive Committee.

Credit risk arising from treasury dealing activities is measured on a real-time basis whereby all exposures relating to a particular counterparty are aggregated and monitored against limits. Credit risk on derivative transactions is measured by summing the current exposure with an allowance for potential future exposure.

Market Risk

Market risk arises as a result of our activities in currency, interest rate, debt and equity markets. During the year, our exposure to market risk has continued to be small in relation to our capital, as our Treasury trading activities have been focused on servicing client requirements rather than on proprietary risk-taking. Market risk figures for the Company are set out in note 2.3 to the financial statements with a description of the methodologies used to monitor and control market risk.

We use financial instruments to manage our exposure to market risks and to take or alter our views on future movements in exchange rates, interest rates and volatility levels. Interest rate derivatives are used to hedge interest rate exposures arising from our lending and corporate treasury activities.

Limits on market risk exposure are set by the Executive Committee, mainly using the value at risk methodology described in note 2.3. Monitoring of market risk limits and determination of trading profits are undertaken daily independently of the dealing area. Whilst value at risk is central to the communication and control of risk, it is complemented by other controls. These include stress testing, which estimates the losses which could occur when markets behave in unusually volatile ways and with little liquidity.

Liquidity Risk

Liquidity risk arises from the funding of our lending and trading activities. The Group Assets and Liabilities Committee recommends policies and procedures for the management of liquidity risk.

Liquidity is measured by classifying assets, liabilities and other cashflows into future time bands using a series of prudent assumptions and calculating the resultant surplus or deficit in each period. The Executive Committee has set deficit limits for each period, which are monitored daily independently of the dealing area.

Operational Risk

Operational risk, which is inherent in all business activities, is the risk of loss arising from the failure of internal controls, operational processes or systems, or from external events. Key to our management of operational risk is the maintenance of a strong framework of internal controls. These are subject to regular independent review by our internal audit department, whose findings are reported to the Audit Committee which monitors the implementation of any recommendations. Operational risk encompasses reputational risk, which is particularly relevant to our business. Reputational risk is managed through formal approval processes for new business and operational procedures for the conduct of business. The Group maintains insurance policies to mitigate loss in the event of certain operational risk events.

The identification, measurement and containment of risk is integral to the management of our businesses. Our risk policies and procedures are regularly updated to meet changing business requirements and to comply with best practice

Other Material Risks

Other risks which are, or may be, material arise in the normal conduct of our business. Such risks, which include concentration risk, pension fund risk and residual risk, are identified and managed as part of our overall risk controls and are taken into account in the Board's periodic assessment of capital adequacy.

Report of the Directors

Committees

Statement of Directors' Responsibilities in Relation to the Report of the Directors and the Financial Statements

Independent Auditors' Report

Report of the Directors

To be submitted at the forty-first Annual General Meeting of the shareholders on 16 June 2008.

The Directors present their Directors' report and financial statements for the year ended 31 March 2008.

Principal Activities and Business Review

N M Rothschild & Sons Limited ("the Company") and its subsidiary undertakings (together with the Company, "the Group"), provide a comprehensive range of banking and financial services. The Company's principal place of business is at New Court, St. Swithin's Lane, London, EC4P 4DU. A review of the activities of the Group for the year, including an indication of likely future developments, is contained in the Chairman's Statement on pages 9 and 10 and the Business Review on pages 13 to 22.

Results and Dividends

The profit for the financial year attributable to shareholders after tax and minority interests was £24,221,000 (2007: £63,002,000). This amount has been dealt with as follows:

	2008 £'000	2007 £'000
Ordinary dividends		
Interim paid	17,500	37,500
Final paid	–	20,000
Transfer to reserves	6,721	5,502
	24,221	**63,002**

Corporate and Social Responsibility

The Group is committed to supporting the principle of equal opportunities and opposes all forms of unlawful or unfair discrimination on the grounds of colour, race, nationality, ethnic origin, gender, marital status, disability, religion, age or sexual orientation. The Group's aim is to recruit, train and promote the best person for the job and to create a working environment free from unlawful discrimination, victimisation and harassment, and in which all employees are treated with dignity and respect.

The Group is committed to supporting charities both in the areas in which it operates and in the wider community. The Charities Committee was established in 1975 to consider the hundreds of requests received every year from charities seeking financial support. The sum of £624,000 (2007: £817,000) was charged against the profits of the Group during the year in respect of gifts for charitable purposes. No political contributions were made during the year.

Corporate and Social Responsibility (continued)

Typical beneficiaries continue to include organisations concerned with elderly people, healthcare, social welfare and education. Requests for support from staff in respect of charitable causes with which they are associated, or have an involvement, are actively encouraged.

Apart from making financial donations, the Group is committed to engaging in long term, mutually beneficial relationships with local schools, charities and community organisations. In January 2008, the "Rothschild in the Community" programme was launched and introduced a formal employee volunteering policy. We prioritise community partnerships which offer the potential to effect real and measurable change in the lives of those who use the services of our partner organisations, and we believe that there are real benefits to the Group and its businesses in developing a culture of volunteering. Our longest-established community relationship is with Bow School in Tower Hamlets, where volunteers take part in a wide range of activities including literacy and numeracy support, mentoring, employability workshops and an after-school art club. Volunteers in Manchester assist with literacy at Holy Name Primary School in Moss Side. In addition to overseeing the development of employee volunteering, the Rothschild in the Community Committee is responsible for the development of an environmental policy and aims to produce an environmental action plan with targets for the reduction of our carbon emissions.

Staff

During the year the Group continued with its long-established policy of providing employees with information on matters of concern to them and on developments within the Group by a series of notices to staff. The Group encourages staff to put forward their views through a staff consultative committee. The interest of all staff in the performance of the Group is realised through the Group's profit sharing scheme in which staff at all levels participate.

Applications for employment by disabled persons are fully and fairly considered having regard to the aptitudes and abilities of each applicant. Efforts are made to enable employees who become disabled during employment to continue their career with the Group.

Directors

The names of the present Directors of the Company are shown on page 5. Brief biographical details of the Independent Non-Executive Directors are included on page 113.

The following Directors have been appointed since the last Annual General Meeting: Christopher Coleman (1 April 2008); Philip Yeates (1 April 2008).

The following Directors have resigned since the last Annual General Meeting: Peter Johns (31 March 2008); Charles Keay (31 March 2008); Isobel Baxter (25 April 2008).

Report of the Directors

Financial Risk Management

The financial risk management objectives and policies of the Company and the Group in respect of the use of financial instruments, together with analyses of exposures to credit risk, market risk and liquidity risk, are set out in note 2 to the financial statements.

Auditors

KPMG Audit Plc have indicated their willingness to continue in office and a resolution to re-appoint them and to authorise the directors to determine their remuneration will be proposed at the forthcoming Annual General Meeting, in accordance with Section 384 of the Companies Act 1985.

Audit Information

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

By Order of the Board

Jonathan Westcott, Secretary

J. Westcott.

New Court, St. Swithin's Lane, London EC4P 4DU
30 June 2008

Committees

To facilitate the efficient administration of the Company's and the Group's affairs, certain functions and responsibilities have been delegated by the board to the following committees, the terms of reference and membership of which are regularly reviewed.

Group Management Committee

The Group Management Committee reports to the Board of Rothschilds Continuation Holdings AG. Its purposes are to formulate strategy for the Rothschild group's businesses, to assess the delivery of that strategy, to ensure the proper and effective functioning of group governance structures, operating policies and procedures, to define the group's risk appetite and to be responsible for the management of risk.

Membership: David de Rothschild (Chairman), Eric de Rothschild, Anthony Alt, Paul Barry, Anthony Chapman, Andrew Didham, François Henrot, Nigel Higgins, Marc-Olivier Laurent, Veit de Maddalena, Richard Martin, Nicholas Wrigley.

Executive Committee

This committee meets twice a week, and as required, to approve key underwriting commitments, loans, credit decisions, dealing limits, new Banking clients and new products, and to consider major business, market developments and operational risk.

Membership: Anthony Alt (Chairman), Leopold de Rothschild, Julia Ashworth, Christopher Coleman, Paul Copsey, Paul Duffy, Jonathan Eddis, Roger Ewart Smith, Timothy Hancock, Simon Linnett, Charles Mercey, Marc Middleton, Alex Midgen, Jonathan Westcott, Philip Yeates.

Credit Committee

This committee authorises and reviews all credit exposure to new and existing counterparties. Exposures exceeding certain limits are subject to ratification by the Executive Committee.

Membership: Timothy Hancock (Chairman), Christopher Coleman, Paul Copsey, Leigh Enevoldson, Adam Greenbury, Peter Griggs, Debra Lewis, Alan Park, John Sealy, Paul Thompson, Ian Walker, Claire Whittet, Nicholas Wood, Philip Yeates.

Committees

Group Assets and Liabilities Committee

This committee reports to the Group Management Committee. It is responsible for ensuring that the Group has prudent funding and liquidity strategies, for the efficient management and deployment of capital resources within regulatory constraints and for the oversight of the management of the Group's balance sheet.

Membership: Andrew Didham (Chairman), Anthony Alt, Christopher Coleman, Paul Copsey, Timothy Hancock, Matthias Montani, Philip Yeates.

New Client Acceptance Committee

This committee approves, from a reputational, money laundering and due diligence perspective, all new clients to be accepted by the Investment Banking business in the UK, Germany, Greece, Hungary, India, Italy, the Middle East, Poland, Portugal, Russia, South Africa, South America and Spain.

Membership: Crispin Wright (Chairman), Walter Cammann, Timothy Hancock, Dominic Hollamby, Stefano Marsaglia, Richard Murley, Roberto Paiva, Albrecht Stewen, Maurice Topiol, Stuart Vincent, William Wells, Jonathan Westcott, Adam Young.

Audit Committee

This committee of the Board of Rothschilds Continuation Holdings AG supervises and reviews the Group's internal audit arrangements, liaises with the Group's external auditors and monitors the overall system and standards of internal control.

Membership: Peter Smith (Chairman), Sir Graham Hearne, Bernard Myers, Sir Clive Whitmore.

Remuneration and Nominations Committee

This committee sets remuneration policies for the Company, oversees the annual remuneration review and approves proposals for promotion and for the appointment of externally recruited senior staff.

Membership: Sir Clive Whitmore (Chairman), David de Rothschild, Eric de Rothschild, Sir John Collins, Sir Graham Hearne.

Statement of Directors' Responsibilities in Relation to the Report of the Directors and the Financial Statements

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

Company law requires the Directors to prepare Group and Parent Company financial statements for each financial year. Under that law the Directors have elected to prepare both the Group and the Parent Company financial statements in accordance with IFRS as adopted by the EU.

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

In preparing each of the Group and the Parent Company financial statements, the Directors are required to:

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

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

Independent Auditors' Report to the Members of N M Rothschild & Sons Limited

We have audited the Group and Parent Company financial statements (the "financial statements") of N M Rothschild & Sons Limited for the year ended 31 March 2008 which comprise the Consolidated Income Statement, the Consolidated and Parent Company Balance Sheets, the Consolidated and Parent Company Cash Flow Statements, the Consolidated and Parent Company Statements of Recognised Income and Expense and the related notes. These financial statements have been prepared under the accounting policies set out therein.

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

Respective Responsibilities of Directors and Auditors

The Directors' responsibilities for preparing the Directors' Report and the financial statements in accordance with applicable law and International Financial Reporting Standards (IFRSs) as adopted by the EU are set out in the Statement of Directors' Responsibilities on page 30.

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

We report to you our opinion as to whether the financial statements give a true and fair view and are properly prepared in accordance with the Companies Act 1985. We also report to you whether in our opinion the information given in the Directors' Report is consistent with the financial statements. The information given in the Directors' Report includes that specific information presented in the Business Review that is cross referred from the Principal Activities and Business Review section of the Directors' Report.

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

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

Independent Auditors' Report to the Members of N M Rothschild & Sons Limited

Basis of Audit Opinion

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

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

Opinion

In our opinion:

- the Group financial statements give a true and fair view, in accordance with IFRSs as adopted by the EU, of the state of the Group's affairs as at 31 March 2008 and of its profit for the year then ended;
- the Parent Company financial statements give a true and fair view, in accordance with IFRSs as adopted by the EU as applied in accordance with the provisions of the Companies Act 1985, of the state of the Parent Company's affairs as at 31 March 2008;
- the financial statements have been properly prepared in accordance with the Companies Act 1985; and
- the information given in the Directors' Report is consistent with the financial statements.

KPMG Audit Plc

KPMG Audit Plc
Chartered Accountants
Registered Auditor
London

30 June 2008

Consolidated Income Statement

For the year ended 31 March 2008

	Note	2008 £'000	2007 £'000
Interest and similar income	4	312,920	274,247
Interest expense and similar charges	4	(247,782)	(209,160)
Net interest income		**65,138**	**65,087**
Fee and commission income	5	340,063	339,059
Fee and commission expense	5	(15,007)	(12,297)
Dividend income	6	118	243
Net trading income	7	5,207	2,579
Fair value movements	8	(33,184)	–
Gains less losses from available-for-sale debt and equity securities	31	6,650	670
Other operating income		8,124	6,706
Total operating income		**377,109**	**402,047**
Impairment losses on financial assets	14, 15	(63,757)	426
Net operating income		**313,352**	**402,473**
Operating expenses	9, 10	(297,149)	(327,086)
Depreciation and amortisation	18, 19	(4,348)	(3,101)
Share of post-tax profit of associated undertakings	16	16,619	7,403
Profit from continuing operations before income tax		**28,474**	**79,689**
Income tax expense	11	(3,454)	(22,622)
Profit from continuing operations after income tax		**25,020**	**57,067**
Profit for the year from discontinued operations	35	–	6,029
Profit for the financial year	**33**	**25,020**	**63,096**
Attributable to			
Equity holders of the parent company		24,221	63,002
Minority interests	32	799	94
		25,020	**63,096**

The notes on pages 40 to 110 form an integral part of these financial statements

Consolidated Balance Sheet

At 31 March 2008

	Note	2008 £'000	2007 £'000
Assets			
Cash and balances at central banks		1,318	779
Loans and advances to banks - included in cash and cash equivalents	14	988,201	107,680
Loans and advances to banks - other	14	13,479	–
Loans and advances to customers	14	1,522,206	1,605,878
Derivative financial instruments	13	11,212	14,818
Debt and equity securities	15	1,986,305	2,566,770
Investments in associated undertakings	16	30,201	14,080
Intangible assets	18	14,620	4,934
Property, plant and equipment	19	38,280	8,382
Current tax assets		18,939	849
Deferred tax assets	24	51,992	43,528
Other assets	20	168,191	156,100
Total assets		**4,844,944**	**4,523,798**
Liabilities			
Deposits by banks		666,772	1,255,437
Due to customers		821,570	737,946
Repurchase agreements		1,113,499	769,796
Derivative financial instruments	13	47,751	14,582
Debt securities in issue	21	1,239,433	874,762
Subordinated liabilities	22	239,472	224,890
Other liabilities	23	52,496	72,255
Accruals and deferred income		316,425	282,343
Total liabilities		**4,497,418**	**4,232,011**
Shareholders' equity			
Share capital		55,155	50,000
Share premium account		97,936	–
Retained earnings		258,639	243,096
Other reserves		(66,001)	(1,854)
Total shareholders' equity attributable to equity holders of the parent	33	**345,729**	**291,242**
Minority interests	32	1,797	545
Equity		**347,526**	**291,787**
Total equity and liabilities		**4,844,944**	**4,523,798**

The accounts on pages 35 to 110 were approved by the Board of Directors on and were signed on its behalf by:

Andrew Didham, Group Finance Director

30 June 2008

The notes on pages 40 to 110 form an integral part of these financial statements

Company Balance Sheet

At 31 March 2008

	Note	2008 £'000	2007 £'000
Assets			
Cash and balances at central banks		1,318	779
Loans and advances to banks - included in cash and cash equivalents	14	979,139	92,961
Loans and advances to banks - other	14	13,479	–
Loans and advances to customers	14	1,452,965	1,451,435
Derivative financial instruments	13	11,197	12,119
Debt and equity securities	15	1,983,880	2,564,462
Shares in subsidiary undertakings	34	35,226	34,716
Investments in associated undertakings	16	10,105	5,592
Investments in joint ventures	17	429	429
Property, plant and equipment	19	58,946	2,523
Current tax assets		20,746	1,101
Deferred tax assets	24	44,626	39,245
Other assets	20	150,360	148,773
Total assets		**4,762,416**	**4,354,135**
Liabilities			
Deposits by banks		666,768	1,136,922
Due to customers		1,548,890	1,361,703
Repurchase agreements		1,113,499	769,796
Derivative financial instruments	13	47,424	14,582
Debt securities in issue	21	523,609	263,500
Subordinated liabilities	22	239,472	224,890
Other liabilities	23	22,682	56,604
Accruals and deferred income		292,802	264,966
Total liabilities		**4,455,146**	**4,092,963**
Shareholders' equity			
Share capital		55,155	50,000
Share premium account		97,936	–
Retained earnings		225,982	214,592
Other reserves		(71,803)	(3,420)
Total shareholders' equity	33	**307,270**	**261,172**
Total equity and liabilities		**4,762,416**	**4,354,135**

The accounts on pages 35 to 110 were approved by the Board of Directors on and were signed on its behalf by:

Andrew Didham, Group Finance Director

30 June 2008

The notes on pages 40 to 110 form an integral part of these financial statements

Statements of Recognised Income and Expense

For the year ended 31 March 2008

	Note	2008 Group £'000	2008 Company £'000	2007 Group £'000	2007 Company £'000
Net income recognised directly in equity					
Available-for-sale investments					
Losses from changes in fair value		(129,990)	(129,900)	(5,098)	(5,243)
Losses/(gains) transferred to income on disposal and impairment		36,499	36,499	(1,024)	(1,024)
Disposal of subsidiary undertaking		–	–	(75)	–
Cash flow hedges					
Gains/(losses) from changes in fair value of effective portion of cash flow hedges		1,185	1,185	(1,463)	(1,463)
Net gains transferred to income on disposal		–	–	(204)	(204)
Other items recognised directly in equity					
Actuarial gains/(losses) on defined benefit pension funds	25	13,443	13,443	(2,551)	(3,817)
Exchange differences on translation of foreign operations	33	4,316	–	(360)	–
Aggregate tax effect of items taken directly to or transferred from equity	11	19,222	19,206	3,173	3,518
		(55,325)	**(59,567)**	**(7,602)**	**(8,233)**
Profit for the financial year		25,020	20,074	63,096	126,355
Total recognised income and expense for the financial year		**(30,305)**	**(39,493)**	**55,494**	**118,122**
Attributable to					
– Equity shareholders of the parent		(31,104)	(39,493)	55,400	118,122
– Minority interests	32	799	–	94	–
		(30,305)	**(39,493)**	**55,494**	**118,122**

The notes on pages 40 to 110 form an integral part of these financial statements

Cash Flow Statements

For the year ended 31 March 2008

	Note	2008 Group £'000	2008 Company £'000	2007 Group £'000	2007 Company £'000
Cash flow from operating activities					
Profit for the financial year		**25,020**	**20,074**	**63,096**	**126,355**
Adjustments to reconcile net profit to cash flow from operating activities					
Non-cash items included in net profit and other adjustments					
Depreciation and amortisation		4,348	1,978	3,425	1,239
Share of operating profit of associated undertakings		(16,619)	–	(7,663)	–
Fair value movements		33,184	33,184	–	–
Impairment of financial and other assets (net of recovery)		63,757	65,854	(254)	(29)
Income tax expense		3,454	1,972	23,735	21,754
Profit on disposal of subsidiaries		–	–	(75)	(79,247)
Unrealised exchange (gains)/losses		14,582	14,582	(7,406)	(7,406)
Profit on disposal of investment securities		(7,309)	–	–	–
Profit on disposal of fixed assets		(63)	(10)	(240)	(5)
		95,334	**117,560**	**11,522**	**(63,694)**
Net (increase)/decrease in operating assets					
Net due to/from banks (excluding cash equivalents)		(647,700)	(484,166)	(13,859)	(54,655)
Derivatives		3,606	922	(5,289)	1,196
Debt and equity securities		524,383	504,649	(32,472)	(37,488)
Loans and advances to customers		122,204	(1,761)	(18,916)	(144,981)
Accrued income, prepaid expenses and other assets		(9,447)	5,967	(17,168)	(17,270)
		(6,954)	**25,611**	**(87,704)**	**(253,198)**
Net increase in operating liabilities					
Customer deposits		66,199	187,187	45,748	150,633
Repurchase agreements		343,703	343,703	155,198	155,198
Derivatives		1,170	843	(13,149)	(6,729)
Issued debt securities		364,671	260,109	(158,777)	(107,670)
Accrued expenses and other liabilities		10,976	(197)	74,346	73,347
Income taxes paid		(8,338)	(7,792)	(32,831)	(29,049)
		778,381	**783,853**	**70,535**	**235,730**
Net cash flow from operating activities*		**891,781**	**947,098**	**57,449**	**45,193**
Cash flow (used in)/from investing activities					
Acquisition/increase in stake of subsidiaries and associates		(15,074)	(5,023)	(5,252)	(64)
Dividends received from associates		8,654	–	3,141	–
Proceeds from disposal of subsidiaries		–	–	81,592	81,592
Purchase of property and other fixed assets		(8,009)	(58,414)	(4,466)	(755)
Disposal of property and other fixed assets		712	23	1,816	6
Net cash flow (used in)/from investing activities		**(13,717)**	**(63,414)**	**76,831**	**80,779**
Cash flow from/(used in) financing activities					
Cash from issuance of ordinary shares		20,000	20,000	–	–
Dividends paid		(17,500)	(17,500)	(57,500)	(57,500)
Dividends paid to minority interests		(37)	–	–	–
Net cash flow from/(used in) financing activities		**2,463**	**2,500**	**(57,500)**	**(57,500)**
Net increase in cash and cash equivalents		**880,527**	**886,184**	**76,780**	**68,472**
Cash and cash equivalents at 1 April		107,701	92,982	70,849	24,510
Less: Cash and cash equivalents of discontinued operations		–	–	(39,928)	–
Cash and cash equivalents at 31 March	30	**988,228**	**979,166**	**107,701**	**92,982**

* Group: cash paid and received for interest during 2008 was £235,788,000 (2007: £251,512,000) and £326,408,000 (2007: £327,674,000) respectively.

* Company: cash paid and received for interest during 2008 was £238,679,000 (2007: £193,143,000) and £312,657,000 (2007: £241,554,000) respectively.

The notes on pages 40 to 110 form an integral part of these financial statements

Notes to the Financial Statements

(forming part of the Financial Statements)

For the year ended 31 March 2008

1. Summary of Significant Accounting Policies

N M Rothschild & Sons Limited ("the Company") is a company incorporated in the United Kingdom. The Group financial statements consolidate those of the Company and its subsidiaries and jointly-controlled entities (together referred to as "the Group") and equity account for the Group's interests in associates. The Parent Company financial statements present information about the Company as a separate entity and not about its group. The accounting policies of the Group set out in this note also apply to the Parent Company financial statements unless otherwise stated.

Several new standards and interpretations have been adopted for the first time in these consolidated financial statements:

IFRS 7 Financial Instruments: Disclosures. The adoption of this standard has no impact on the recognition, measurement and presentation of financial instruments but instead changes the level of disclosure required. In particular, the consolidated financial statements now include disclosures that enable users to evaluate: a) the significance of financial instruments for the Group's financial position and performance; and b) the nature and extent of the credit, market and liquidity risks arising from financial instruments during the period and at the reporting date, and how the Group manages those risks. The principles of IFRS 7 complement the principles for recognising, measuring and presenting financial assets and financial liabilities set out in IAS 32 Financial Instruments: Presentation and IAS 39 Financial Instruments: Recognition and Measurement.

IFRIC 8 Scope of IFRS 2 Share-based Payment, IFRIC 9 Reassessment of Embedded Derivatives, and IFRIC 11 Group and Treasury Share Transactions have also been adopted for the first time but have had no impact on the consolidated financial statements.

A number of new standards, amendments to standards and interpretations are not effective for the year ended 31 March 2008, and have not been applied in preparing these consolidated financial statements:

Standards, amendments and interpretations endorsed by the EU
Revised IAS 23 Borrowing Costs removes the option to expense borrowing costs and requires that an entity capitalise borrowing costs directly attributable to the acquisition, construction or production of a qualifying asset as part of the cost of that asset. The revised IAS 23 will become mandatory for the Group's 2010 financial statements and will constitute a change in accounting policy for the Group. In accordance with the transitional provisions the Group will apply the revised IAS 23 to qualifying assets for which capitalisation of borrowing costs commences on or after the effective date. The Group has yet to determine what the impact on the financial statements of adopting this standard will be.

IFRS 8 Operating Segments introduces the "management approach" to segment reporting. IFRS 8 will become mandatory for the Group's 2010 financial statements and will require the disclosure of segment information based on the internal reports regularly reviewed by the Group's chief operating decision-maker in order to assess each segment's performance and to allocate resources to them. The Group has yet to determine what the impact on the financial statements of adopting this standard will be.

Notes to the Financial Statements

(forming part of the Financial Statements)

1. Summary of Significant Accounting Policies (continued)

Standards, amendments and interpretations not endorsed by the EU

IFRIC 12 Service Concession Arrangements provides guidance on certain recognition and measurement issues that arise in accounting for public-to-private service concession arrangements. IFRIC 12 which, if endorsed by the EU, would become mandatory for the Group's 2009 financial statements, is not expected to have any impact on the consolidated financial statements.

IFRIC 13 Customer Loyalty Programmes addresses the accounting by entities that operate, or otherwise participate in, customer loyalty programmes for their customers. It relates to customer loyalty programmes under which the customer can redeem credits for awards such as free or discounted goods or services. IFRIC 13 which, if endorsed by the EU, would become mandatory for the Group's 2010 financial statements, is not expected to have any impact on the consolidated financial statements.

IFRIC 14 IAS 19 – The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction clarifies when refunds or reductions in future contributions in relation to defined benefit assets should be regarded as available and provides guidance on the impact of minimum funding requirements on such assets. It also addresses when a minimum funding requirement might give rise to a liability. If endorsed by the EU, IFRIC 14 will become mandatory for the Group's 2009 financial statements, with retrospective application required. The Group has not yet determined the potential effect of the interpretation.

Basis of preparation

Both the Parent Company and the Group financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") and International Financial Reporting Interpretations Committee ("IFRIC") interpretations endorsed by the European Union ("EU") and with those requirements of the Companies Act 1985 applicable to companies reporting under IFRS. The financial statements are prepared under the historical cost convention, except that available-for-sale investments, financial assets held for trading and all derivative contracts are stated at their fair value.

The principal accounting policies set out below have been consistently applied in the presentation of the Group financial statements.

Basis of consolidation

The financial statements of the Group are made up to 31 March 2008 and consolidate the audited financial statements of the Company and its subsidiary undertakings. In order to avoid undue delay in the preparation of the consolidated financial statements, the financial statements of certain subsidiary undertakings are made up to 31 December each year.

Subsidiary undertakings

Subsidiary undertakings are all entities (including special purpose entities) over which the Group has the power to govern the financial and operating policies, generally as a result of a shareholding of more than one half of the voting rights, so as to obtain benefits from the activities of the entity. In assessing control, potential voting rights that are currently exercisable or convertible are taken into account. Subsidiary undertakings are fully consolidated from the date on which the Group acquires control, and cease to be consolidated from the date that control ceases.

Notes to the Financial Statements

(forming part of the Financial Statements)

1. Summary of Significant Accounting Policies (continued)

Basis of consolidation (continued)

The Group uses the purchase method of accounting for the acquisition of subsidiary undertakings. The cost of an acquisition is measured as the fair value of the assets given as consideration, shares issued or liabilities undertaken at the date of acquisition, plus any costs directly attributable to the acquisition. The excess of the cost of acquisition over the fair value of the net identifiable assets and fair value of contingent liabilities of the subsidiary undertaking acquired is recorded as goodwill. All inter-company transactions, balances and unrealised surpluses and deficits on transactions between group companies are eliminated on consolidation. The accounting policies used by subsidiary undertakings are consistent with the policies adopted by the Group.

The financial statements of the Group's subsidiary undertakings are made up to a date not earlier than three months before the balance sheet date and are adjusted, where necessary, to conform with the accounting policies of the Group and for any material transactions or events that occur between the two dates.

In the Parent Company financial statements, investments in subsidiary undertakings are carried at cost.

Associated undertakings
An associated undertaking is an entity in which the Group has significant influence, but not control, over the operating and financial management policy decisions. This is generally demonstrated by the Group holding in excess of 20 per cent, but no more than 50 per cent, of the voting rights.

The Group's investments in associated undertakings are initially recorded at cost. Subsequently they are increased or decreased by the Group's share of the post-acquisition profit or loss, or by other movements reflected directly in the equity of the associated undertakings. When the Group's share of losses in an associated undertaking equals or exceeds its interest in the associated undertaking, the Group does not recognise further losses, unless it has incurred obligations or made payments on behalf of the associated undertaking. Positive goodwill arising on the acquisition of an associated undertaking is included in the cost of the investment (net of any accumulated impairment loss).

The Group's share of the post-tax results of associated undertakings is based on financial statements made up to a date not earlier than three months before the balance sheet date, adjusted to conform with the accounting policies of the Group and for any material transactions or events that occur between the two dates.

In the Parent Company financial statements, investments in associated undertakings are carried at cost.

Joint ventures
Joint ventures, in which the Group has a contractual arrangement with one or more parties to undertake activities jointly, may take the form of a jointly controlled entity or a jointly controlled operation.

A jointly controlled entity is a joint venture that involves the establishment of an entity in which each venturer has an interest. Jointly controlled entities are consolidated using the proportional consolidation method, under which the Group's financial statements include its share of the joint venture's assets, liabilities, income and expenses on a line-by-line basis. Proportional consolidation is discontinued when the Group no longer exercises joint control over the entity.

Jointly controlled operations are those joint ventures involving the use of the assets and other resources of the venturers themselves, rather than the establishment of an entity. The Company includes in its individual financial statements (and therefore in the Group's consolidated financial statements) all the assets that it controls and the liabilities and expenses that it incurs in the course of pursuing the joint operation, and its share of the income from the joint operation.

Notes to the Financial Statements

(forming part of the Financial Statements)

1. Summary of Significant Accounting Policies (continued)

Discontinued operations

Where the Group disposes of, or classifies as held for sale, a component of its business that represents a separate major line of business or geographical area of operations, it is treated as a discontinued operation. In accordance with IFRS 5 Non-current Assets Held for Sale and Discontinued Operations, the results of discontinued operations, together with any gain or loss on disposal or measurement to fair value, are shown as a single amount in the income statement.

Foreign exchange

The consolidated financial statements are presented in sterling, which is the Company's functional currency and the Group's reporting currency. Items included in the financial statements of each of the Group's entities are measured using their functional currency. The functional currency is the currency of the primary economic environment in which the entity operates.

Income statements and cash flows of foreign operations are translated into the Group's reporting currency at average exchange rates for the period where this rate approximates to the foreign exchange rates ruling at the date of the transactions and their balance sheets are translated at the exchange rate at the end of the period. Exchange differences arising from the translation of the net investment in foreign subsidiary and associated undertakings and joint ventures are taken to shareholders' equity. On disposal of a foreign operation, these translation differences are recognised in the income statement as part of the gain or loss on sale.

Foreign currency transactions are accounted for at the exchange rates prevailing at the date of the transaction. Gains and losses resulting from the settlement of such transactions, and from the translation at period end exchange rates of monetary items that are denominated in foreign currencies, are recognised in the income statement, except when deferred in equity as qualifying cash flow hedges. Non-monetary assets and liabilities that are measured in terms of historical cost in a foreign currency are translated using the exchange rate at the date of the transaction. Non-monetary assets and liabilities denominated in foreign currencies that are stated at fair value are translated at foreign exchange rates ruling at the dates when the fair value was determined.

Translation differences on equities classified as at fair value through profit or loss are reported as part of the fair value gain or loss in the income statement. Translation differences on equities classified as available for sale are included in the available-for-sale reserve in equity.

Goodwill and fair value adjustments arising on the acquisition of a foreign entity are treated as assets and liabilities of the foreign entity and are translated at the closing rate.

Derivative financial instruments and hedge accounting

Derivatives

Derivatives are entered into for trading and risk management purposes. Derivatives used for risk management are accounted for as hedges where they qualify as such under IAS 39.

Derivatives are initially recognised at fair value and are subsequently measured at fair value with changes in fair value recognised in the income statement except that, where derivatives qualify for hedge accounting, recognition of any gain or loss depends on the nature of the item being hedged (see below).

Notes to the Financial Statements

(forming part of the Financial Statements)

1. Summary of Significant Accounting Policies (continued)

Derivative financial instruments and hedge accounting (continued)

Embedded derivatives

Some hybrid contracts contain both a derivative and a non-derivative component. In such cases, the derivative component is termed an embedded derivative. Where the economic characteristics and risks of embedded derivatives are not closely related to those of the host contract, and where the hybrid contract itself is not carried at fair value through profit or loss, the embedded derivative is separated and recorded at fair value with gains and losses being recognised in the income statement.

The Group's investments in collateralised debt obligations ("CDOs") which take credit exposure in the form of credit derivatives are treated as containing embedded derivatives that are not closely related to the host CDO contract. The change in fair value of these "synthetic" CDO contracts attributable to the credit derivatives is recognised in the income statement.

Hedge accounting

The Group may apply either fair value or cash flow hedge accounting when transactions meet the criteria for hedge accounting treatment set out in IAS 39. At the inception of the hedge, the Group assesses whether the hedging derivatives meet the effectiveness criteria of IAS 39 in offsetting changes in the fair value or cash flows of the hedged items. The Group then documents the relationship between the hedging instrument and the hedged item. It also records its risk management objectives, its strategy for undertaking the hedge transaction and the methods used to assess the effectiveness of the hedging relationship.

After inception, effectiveness is tested on an on-going basis. Hedge accounting is discontinued when it is determined that a derivative has ceased to be highly effective, or when the derivative or the hedged item is derecognised, or when the forecast transaction is no longer expected to occur.

Fair value hedge accounting

Changes in value of fair value hedge derivatives are recorded in the income statement, together with fair value changes to the underlying hedged item in respect of the risk being hedged.

If the hedge no longer meets the criteria for hedge accounting, the difference between the carrying value of the hedged item on termination of the hedging relationship and the value at which it would have been carried had the hedge never existed is amortised to the income statement over the residual period to maturity based on a recalculated effective interest rate. Where the hedged item is an available-for-sale equity security, the adjustment remains in retained earnings until the disposal of the equity security.

Cash flow hedge accounting

Changes in the fair value of the effective portion of derivatives designated as cash flow hedges are recognised in equity. The gain or loss relating to the ineffective portion is recognised in the income statement. Amounts accumulated in equity are recycled to the income statement when the item being hedged impacts profit or loss.

When hedge accounting is discontinued, any cumulative gain or loss in equity remains in equity and is only recognised in the income statement when the forecast transaction is recognised in the income statement. When the forecast transaction is no longer expected to occur, the cumulative balance in equity is immediately transferred to the income statement.

Notes to the Financial Statements

(forming part of the Financial Statements)

1. Summary of Significant Accounting Policies (continued)

Derivative financial instruments and hedge accounting (continued)

Net investment hedges

Hedges of net investments in foreign operations are accounted for in a way similar to cash flow hedges. Any gain or loss on the hedging instrument relating to the effective portion of the hedge is recognised in equity; the gain or loss relating to the ineffective portion is recognised immediately in the income statement. Gains and losses accumulated in equity are recognised in the income statement when the foreign operation is disposed of.

Trading income

Trading income arises from movements in the fair value of financial assets held for trading and financial assets designated at fair value through profit or loss.

Fee and commission income

The Group earns fee and commission income from services provided to clients. Fee income from advisory and other services can be divided into two broad categories; fees earned from services that are provided over a period of time, which are recognised over the period in which the service is provided; and fees that are earned on completion of a significant act or on the occurrence of an event, such as the completion of a transaction, which are recognised when the act is completed or the event occurs.

Fees and commissions that are an integral part of a loan, and loan commitment fees for loans that are likely to be drawn down, are deferred (together with related direct costs) and recognised over the life of the loan as an adjustment to the effective interest rate.

Interest income and expense

Interest receivable and payable represents interest arising out of banking activities, including lending and deposit-taking business, interest on related hedging transactions and interest on debt securities. Interest on financial instruments, except those classified as held for trading or designated at fair value through profit or loss, is recognised as interest income or expense in the income statement using the effective interest rate method.

The effective interest rate is the rate that exactly discounts the estimated future cash flows of a financial instrument to its net carrying amount. It is used to calculate the amortised cost of a financial asset or a financial liability and to allocate the interest over the relevant period (usually the expected life of the instrument). When calculating the effective interest rate, the Group considers all contractual terms of the financial instrument (for example, prepayment options) but does not consider future credit losses. The calculation includes any premiums or discounts, as well as all fees and transaction costs that are an integral part of the loan.

Financial assets and liabilities

Financial assets and liabilities are recognised on trade date and derecognised on either trade date, if applicable, or on maturity or repayment.

On initial recognition, IAS 39 requires that financial assets be classified into the following categories; at fair value through profit or loss, loans and receivables, held-to-maturity investments, or available for sale. The Group does not hold any assets that are classified as held-to-maturity investments.

Notes to the Financial Statements

(forming part of the Financial Statements)

1. Summary of Significant Accounting Policies (continued)

Financial assets and liabilities (continued)

Financial assets at fair value through profit or loss

This category comprises financial assets held for trading (i.e. primarily acquired for the purpose of selling in the short term) and derivatives that are not designated as cash flow or net investment hedges. These financial assets are initially recognised at fair value, with transaction costs recorded immediately in the income statement and are subsequently measured at fair value. Gains and losses arising from changes in fair value or on derecognition are recognised in the income statement as net trading income. Interest and dividend income from financial assets at fair value through profit or loss is recognised in trading income.

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Loans which are intended to be sold in the short term are classified as held for trading and are recorded at fair value through profit or loss.

Loans and receivables are initially recorded at fair value, including any transaction costs, and are subsequently measured at amortised cost using the effective interest rate method. Gains and losses arising on derecognition of loans and receivables are recognised in other operating income.

Available-for-sale investments

Available-for-sale investments comprise non-derivative financial assets that are either designated as available for sale on initial recognition or are not classified into the categories described above. Available-for-sale investments include loans and debt securities that do not meet the criteria for classification as loans and receivables as they are quoted in an active market. Available-for-sale investments are initially recognised at fair value, including direct and incremental transaction costs, and are subsequently measured at fair value.

Gains and losses arising from changes in the fair value of available-for-sale financial assets are recognised in equity until the financial asset is sold, at which time the cumulative gain or loss is transferred to the income statement. Interest (determined using the effective interest rate method), impairment losses and translation differences on monetary items are recognised in the income statement as they arise. Dividends on available-for-sale equity instruments are recognised in the income statement when the Group's right to receive payment is established.

Determination of fair value

The fair value of quoted investments in active markets is based on current bid prices. For other financial assets, the Group establishes fair value by using appropriate valuation techniques. These include the use of recent arm's length transactions, discounted cash flow analysis, option pricing models and other valuation methods commonly used by market participants. For certain investments, the valuation may be derived from quotations received from various sources. Where the market is illiquid, the quotations may not be supported by prices from actual market transactions. The fair value of short term debtors is equal to invoice value.

Financial liabilities

Except for derivatives, which are classified as at fair value through profit or loss on initial recognition, all financial liabilities are carried at amortised cost using the effective interest rate method.

Notes to the Financial Statements

(forming part of the Financial Statements)

1. Summary of Significant Accounting Policies (continued)

Financial assets and liabilities (continued)

Financial guarantee contracts

Financial guarantee contracts are contracts that require the issuer to make specified payments to reimburse the holder for a loss it incurs because a specified debtor fails to make payments when due, in accordance with the terms of a debt instrument. Financial guarantee liabilities are initially recognised at fair value, and the initial fair value is amortised over the life of the guarantee. The guarantee liability is subsequently carried at the higher of the amortised amount and the expected present value of any expected payment (when a payment under the guarantee has become probable).

Where one Group company enters into financial guarantee contracts to guarantee the indebtedness of other companies within the Group, that company considers these to be insurance arrangements and accounts for them as such. In this respect, the Group company treats the guarantee contract as a contingent liability until such time as it becomes probable that it will be required to make a payment under the guarantee.

Derecognition

The Group derecognises a financial asset when:

i. the contractual rights to cash flows arising from the financial asset have expired; or
ii. it transfers the financial asset including substantially all of the risks and rewards of the ownership of the asset; or
iii. it transfers the financial asset, neither retaining nor transferring substantially all the risks and rewards of the asset, but no longer retains control of the asset.

Securitisation transactions

The Group has entered into funding arrangements with lenders in order to finance specific financial assets.

In general, both the assets and the related liabilities from these transactions are held on the Group's balance sheet. However, to the extent that the risks and returns associated with the financial instruments have been transferred to a third party, the assets and liabilities are derecognised in whole or in part.

Interests in securitised financial assets may be retained or taken in the form of senior or subordinated tranches of debt securities, or other residual interests. Such retained interests are primarily recorded as available-for-sale assets.

1. Summary of Significant Accounting Policies (continued).

Impairment of financial assets

Assets carried at amortised cost are assessed at each balance sheet date to determine whether there is objective evidence that a financial asset or group of financial assets is impaired.

Impairment losses are incurred if there is objective evidence of impairment as a result of one or more events occurring after initial recognition of the asset (a 'loss event') and that loss event has an impact on the estimated future cash flows of the financial asset or group of financial assets that can be reliably estimated. Objective evidence that a financial asset or group of assets is impaired includes observable data about the following loss events:

i. significant financial difficulty of the issuer;
ii. a breach of contract, such as a default or delinquency in interest or principal repayment;
iii. granting to the borrower a concession, for economic or legal reasons relating to the borrower's financial difficulty, that the lender would not otherwise consider;
iv. it becoming probable that the borrower will enter bankruptcy or other financial reorganisation.

Impairment of loans and receivables

The Group first assesses whether objective evidence of impairment exists individually for financial assets that are individually significant and individually or collectively for financial assets that are not individually significant. Impairment losses are calculated on a collective basis in respect of losses that have been incurred but not yet identified on loans that are subject to individual assessment for impairment and for homogeneous groups of loans that are not considered individually significant. If no objective evidence of impairment exists for an individually assessed financial asset, it is included in a collective assessment for impairment with other assets with similar risk characteristics.

If there is objective evidence that an impairment loss has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of expected future cash flows discounted at the financial asset's original effective interest rate. The carrying amount of the asset is reduced, the loss being recognised in the income statement.

The calculation of the present value of the estimated future cash flows of a financial asset reflects the cash flows that may result from scheduled interest payments, principal repayments, or other payments due, including liquidation of collateral where available. In estimating these cash flows, management makes judgments about a counterparty's financial situation and the fair value of any underlying collateral or guarantees in the Group's favour. Each impaired asset is assessed on its merits, and the workout strategy and estimate of cash flows considered recoverable are reviewed by the Credit Committee on a quarterly basis. The methodology and assumptions used for estimating both the amount and the timing of future cash flows are reviewed regularly to reduce any differences between loss estimates and actual loss experience.

Collectively assessed credit risk allowances cover credit losses inherent in portfolios of financial assets with similar economic characteristics where there is objective evidence to suggest that they contain impaired assets but the individual impaired items cannot yet be identified. For the purposes of a collective evaluation of impairment, financial assets are grouped on the basis of similar credit risk characteristics. Future cash flows are estimated on the basis of historical loss experience. These estimates are subject to regular review and adjusted to reflect the effects of current conditions that did not affect the period on which the historical loss experience is based and to remove the effects of conditions in the historical period that do not exist currently.

Notes to the Financial Statements

(forming part of the Financial Statements)

1. Summary of Significant Accounting Policies (continued)

Impairment of financial assets (continued)

The accuracy of the allowances made depends on how accurately the Group estimates future cash flows for specific counterparty allowances and provisions and the model assumptions and parameters used in determining collective allowances. While this necessarily involves judgment, the Group believes that its allowances and provisions are reasonable and supportable.

Once a financial asset or a group of similar financial assets has been written down as a result of an impairment loss, interest income is recognised using the original effective interest rate which was used to discount the future cash flows for the purpose of measuring the impairment loss.

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related to an objective event occurring after the impairment was recognised (for example, being awarded a new contract that materially enhances future cashflows), the previously recognised impairment loss is reversed by adjusting the allowance for loan impairment. The amount of the reversal is recognised in the income statement.

When a loan is deemed uncollectable, it is written off against the related allowance for loan impairment. Recoveries received in respect of loans previously written off are recorded as a decrease in the impairment losses on loans and advances and are recorded in the income statement in the year in which the recovery was made.

Loans subject to individual impairment assessment whose terms have been renegotiated, and which would have been past due or impaired had they not been renegotiated, are reviewed to determine whether they are impaired or past due.

Impairment of available-for-sale assets
Available-for-sale assets are assessed at each balance sheet date to determine whether there is objective evidence that a financial asset or group of financial assets is impaired.

For equity shares classified as available for sale, a significant or prolonged decline in the fair value of the security below its cost is considered evidence of impairment. If any such evidence exists, the cumulative loss is removed from equity and recognised in the income statement. If, in a subsequent period, the impairment loss on an equity share classified as available for sale increases, it is not reversed through the income statement, but remains recorded in equity.

Impairment of available-for-sale debt securities is based on the same criteria as for all other financial assets. If in a subsequent period the fair value of a debt instrument classified as available for sale increases and the increase can be objectively related to an event occurring after the impairment loss was recognised in the income statement, the impairment loss is reversed through the income statement.

The loss recognised in the income statement is the difference between the acquisition cost and current fair value, less any impairment loss on that financial asset previously recognised in the income statement.

Debt/equity classification

Under IFRS the critical feature in differentiating a debt instrument from an equity instrument is the existence of a contractual obligation of the Group to deliver cash (or another financial asset) to another entity. Where there is no such contractual obligation, the Group will classify the financial instrument as equity, otherwise it will be classified as a liability and carried at amortised cost. Under IFRS the legal form of the transaction takes precedence over its economic substance in determining how it should be classified.

Notes to the Financial Statements

(forming part of the Financial Statements)

1. Summary of Significant Accounting Policies (continued)

Goodwill and intangible assets

i. Goodwill in a subsidiary or an associated undertaking represents the excess, at the date of acquisition, of an acquisition's cost over the fair value of the Group's share of net identifiable assets acquired. Identifiable intangible assets are those which can be sold separately or which arise from legal rights regardless of whether those rights are separate.

Goodwill is stated at cost less any accumulated impairment losses. Goodwill is tested annually for impairment, or more frequently when circumstances indicate that its carrying amount is too high. Goodwill is allocated to cash-generating units for the purposes of impairment testing. If the net present values of the cash-generating units' forecast cash flows are insufficient to support their carrying value, then the goodwill is impaired. Impairment losses on goodwill are recognised in the income statement and are not reversed.

Gains and losses on the disposal of an entity include the carrying amount of goodwill relating to the entity sold.

Negative goodwill in an associated or subsidiary undertaking represents the excess of net identifiable assets acquired over the acquisition cost, and is recognised immediately in the income statement.

ii. Intangible assets comprise acquired intellectual property rights, which are carried at cost less accumulated amortisation and impairment losses. The costs are amortised on the basis of an estimated useful life of 10 years. Intellectual property rights are reviewed at each reporting date to determine whether there is any objective evidence of impairment. If such evidence exists, an impairment test is performed.

Property, plant and equipment

All property, plant and equipment is stated at cost or deemed cost (where, on transition to IFRS, the Group elected to treat the fair value of an item of property, plant and equipment at the IFRS transition date as its deemed cost, as permitted under IFRS 1 First-time Adoption of International Financial Reporting Standards) less accumulated depreciation and impairment losses. Cost includes expenditure that is directly attributable to the acquisition of the asset.

Land is not depreciated. Depreciation on other assets is calculated using the straight-line method to write down the cost of assets to their residual values over their estimated useful lives, as follows:

Computer equipment	3-5 years
Cars	3-5 years
Fixtures and fittings	3-10 years
Leasehold improvements	4-15 years

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

Gains and losses on disposals are determined by comparing proceeds with carrying amounts. These gains and losses are recognised in the income statement.

Notes to the Financial Statements

(forming part of the Financial Statements)

1. Summary of Significant Accounting Policies (continued)

Impairment of property, plant and equipment

At each balance sheet date, or more frequently where events or changes in circumstances dictate, property, plant and equipment is assessed for indications of impairment. If such indications are present, these assets are subject to an impairment review. If impaired, the carrying values of assets are written down by the amount of any impairment and the loss is recognised in the income statement in the period in which it occurs. A previously recognised impairment loss relating to a fixed asset may be reversed when a change in circumstances leads to a change in the estimates used to determine the fixed asset's recoverable amount. The carrying amount of the fixed asset is only increased up to the amount that it would have been had the original impairment not been recognised.

Finance and operating leases

Where the Group is the lessor

Finance leases
When assets are held subject to a finance lease, the present value of the lease payments is recognised as a receivable. The difference between the gross receivable and the present value of the receivable is recognised as unearned finance income. Lease income is recognised in interest income over the term of the lease using the net investment method (before tax), which reflects a constant periodic rate of return.

Operating leases
Assets acquired for use by customers under operating lease agreements, including initial direct costs incurred in negotiating an operating lease, are capitalised and included in the relevant category of fixed assets. Depreciation is charged on a straight-line basis to write the value of the asset down to the expected residual value over a period consistent with other assets of a similar type.

Operating lease income and the initial direct costs are recognised in other operating income on a straight-line basis over the period of the lease.

Where the Group is the lessee
The Group has entered into operating leases in respect of offices premises. The total payments made under operating leases are charged to the income statement as operating expenses.

Cash and cash equivalents

For the purposes of the cash flow statement, cash and cash equivalents comprise balances with original maturities of less than three months, including cash and non-restricted balances with central banks, certificates of deposit and loans and advances to banks.

Notes to the Financial Statements

(forming part of the Financial Statements)

1. Summary of Significant Accounting Policies (continued)

Pensions

The Group's post-retirement benefit arrangements are described in note 25. The Group operates a number of pension and other post-retirement benefit schemes, both funded and unfunded, of the defined benefit and defined contribution types. For defined contribution schemes, the contribution payable in respect of the accounting period is recognised in the income statement.

The defined benefit schemes are accounted for using the option permitted by the amendment made to IAS 19 Employee Benefits whereby actuarial gains and losses are recognised outside profit or loss and presented in the statement of recognised income and expense. The amount recognised in the balance sheet in respect of defined benefit schemes is the difference between the present value of the defined benefit obligation at the balance sheet date, and the fair value of the plan's assets, if any. The defined benefit obligation is calculated annually by independent actuaries using the projected unit credit method. The principal assumptions are set out in note 25. The present value of the obligation is determined by discounting the estimated future cash outflows using interest rates of high-quality corporate bonds that are denominated in the currency in which the benefits will be paid and that have terms to maturity approximating to the terms of the related pension liability.

Share-based payments

The Group has entered into cash-settled share-based payment transactions. Where share-based payments are used to pay for employees' services, the fair value of the services received is initially measured by reference to the fair value of the instruments granted to them. The cost of the services is recognised within staff costs in the income statement and is re-measured at each reporting date and at the date of settlement. Any vesting rights are taken into account when determining the rights to payment.

Interest-free loans to employees are accounted for under IAS 39 by recognising the loans at fair value (i.e. at a discount). The cost of the employee benefit is spread over the period in which the benefit is expected to accrue. In practice, the effect of this is offset in the income statement by the accretion of the discount on the loan back up to par value over the same period.

Long term employee benefits

The Group operates long term profit share schemes for the benefit of employees. The costs of such schemes are recognised in the income statement over the period in which the services are rendered that give rise to the obligation. Where the payment of profit share is deferred until the end of a specified vesting period, the deferred amount is recognised in the income statement over the period up to the date of payment.

Taxation

Tax payable on profits and deferred tax are recognised in the income statement, except to the extent that they relate to items that are recognised in equity, in which case the tax is also recognised in equity.

Deferred tax is provided in full, using the balance sheet liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts. Deferred tax is determined using tax rates and laws that are expected to apply when a deferred tax asset is realised, or when a deferred tax liability is settled.

Notes to the Financial Statements

(forming part of the Financial Statements)

1. Summary of Significant Accounting Policies (continued)

Taxation (continued)

The principal temporary differences arise from depreciation of property, plant and equipment, deferred profit share arrangements, revaluation of certain financial instruments including derivative contracts, provisions for post-retirement benefits and tax losses carried forward.

Deferred tax assets, including the tax effects of income tax losses available for carry forward, are only recognised where it is probable that future taxable profits will be available against which the temporary differences can be utilised. Deferred tax is not provided on temporary differences arising from investments in subsidiary undertakings and associated undertakings, unless the timing of the reversal of the temporary difference is controlled by a third party or it is probable that the difference will reverse in the foreseeable future.

Dividends

Dividends on ordinary shares are recognised in equity in the period in which they are declared by the Company's shareholders at the Annual General Meeting or, if earlier, when they are paid.

Provisions and contingencies

Provisions are recognised only when the Group has a present obligation (legal or constructive) as a result of past events. In addition, it must be probable that a transfer of economic benefits will be required to settle the obligation, and it must also be possible to make a reliable estimate of the amount of the obligation.

The Group recognises provisions in respect of onerous contracts when the expected benefits to be derived from a contract are less than the unavoidable costs of meeting the obligations under the contract.

Contingent liabilities are possible obligations arising from past events whose existence will be confirmed by one or more uncertain future events not wholly within the Group's control, or present obligations that are not recognised either because it is not probable that an outflow of resources will be required to settle the obligation or the amount of the obligation cannot be reliably estimated. Contingent liabilities are disclosed unless the possibility of a transfer of economic benefits is remote.

Notes to the Financial Statements

(forming part of the Financial Statements)

2. Financial Risk Management

2.1 Strategy in using financial instruments

The use of financial instruments is fundamental to the Group's banking and treasury activities. The Group provides a range of lending products to its clients and funds these activities by means of deposit-taking, medium term note issuance and other borrowings. The Group invests in debt securities in order to profit from the interest margin over its cost of funds and to provide a portfolio of liquid assets to assist in the management of liquidity risk and to hedge forecast cashflows. The Group uses derivative financial instruments to meet clients' requirements, for proprietary trading and to manage its exposure to interest rate and currency risk. Further information on derivative contracts and the Group's hedging strategies is set out in note 13. The key risks arising from the Group's activities involving financial instruments are as follows:

- Credit risk – the risk of loss arising from client or counterparty default.
- Market risk – exposure to changes in market variables such as interest rates, currency exchange rates, equity and debt prices.
- Liquidity and funding risk – the risk that the Group is unable to meet its obligations as they fall due, or that it is unable to borrow in the market at an acceptable price to fund its commitments.

2.2 Credit risk

Credit risk arises from all exposures to clients and counterparties relating to the Group's lending, trading and investment activities. Limits on credit risk are set by the Group Management Committee and by the Credit Committee. The Credit Committee reviews concentrations and makes recommendations on credit decisions to the Executive Committee. Credit risk limits are set, where appropriate, in respect of exposures to individual clients or counterparties, to industry sectors and to countries.

Exposure to credit risk is managed by detailed analysis of client and counterparty creditworthiness prior to entering into an exposure, and by continued monitoring thereafter. A significant proportion of the Group's lending exposures is secured on property or other assets; the Group monitors the value of any collateral obtained. The Group also uses netting agreements to restrict credit exposure to counterparties. For internal monitoring purposes, credit exposure on loans and debt securities is measured as the principal amount outstanding plus accrued interest. Credit exposure on derivatives is measured as the current replacement value plus an allowance for the potential change in replacement value.

The Credit Committee reviews credit exposures on loans and debt securities on a quarterly basis and for this purpose they are classified as follows:

Category 1
Exposures where the payment of interest or principal is not in doubt and which are in compliance with the terms of their loan agreements.

Category 2
Exposures where the payment of interest or principal is not in doubt, but which require closer observation than usual due to some deterioration in the position of the client, for example: poor trading results; difficult conditions in the client's market sector; competitive or regulatory threats; or the potential impact from currency or other factors.

Notes to the Financial Statements

(forming part of the Financial Statements)

2. Financial Risk Management (continued)

2.2 Credit risk (continued)

Category 3
Exposures where there has been further deterioration in the position of the client. Although the exposure is not considered to be impaired, the relationship requires close monitoring by the front office team.

Category 4
Exposures that are considered to be impaired and which carry a provision against part of the loan. Some recovery is expected to be made.

Category 5
Exposures that are considered to be impaired and which carry a full provision. No significant recovery of value is expected.

During the year ended 31 March 2008, Category 2 exposures have increased in anticipation of a less favourable economic outlook. Exposures to corporate borrowers have been included if a covenant waiver has been requested and/or trading performance is below expectations; payments are being received on schedule. Property exposures have been included as Category 2 exposures where there is a perception of a decrease in the property value, although in all cases the exposures continue to be serviced by rental cash flows. Asset finance exposures are included where there is deterioration in the financial performance of the borrower, although the Group has security over the underlying asset.

a. Credit risk exposure
The tables below disclose the maximum exposure to credit risk at the reporting date for financial assets with significant exposure to credit risk, without taking account of collateral held or other credit risk mitigation.

	Category 1 £'000	Category 2 £'000	Category 3 £'000	Past due but not impaired £'000	Category 4 and 5 £'000	Impairment allowance £'000	Total (net) £'000
Group							
At 31 March 2008							
Derivative financial instruments	11,212	–	–	–	–	–	11,212
Loans and advances to banks	1,001,680	–	–	–	–	–	1,001,680
Loans and advances to customers	1,372,403	107,612	14,112	26,307	13,179	(11,407)	1,522,206
Debt securities	1,853,604	27,225	–	–	29,399	(22,929)	1,887,299
Commitments and guarantees	246,493	26,743	–	–	–	–	273,236
Accounts receivable	111,223	–	–	1,992	5,064	(2,960)	115,319
Total	**4,596,615**	**161,580**	**14,112**	**28,299**	**47,642**	**(37,296)**	**4,810,952**
At 31 March 2007							
Derivative financial instruments	14,818	–	–	–	–	–	14,818
Loans and advances to banks	107,680	–	–	–	–	–	107,680
Loans and advances to customers	1,557,934	25,287	–	22,324	11,401	(11,068)	1,605,878
Debt securities	2,548,687	10,814	–	–	1,997	(275)	2,561,223
Commitments and guarantees	596,076	787	–	–	–	–	596,863
Credit default swaps	13,584	–	–	–	–	–	13,584
Accounts receivable	88,861	–	–	3,632	4,132	(2,714)	93,911
Total	**4,927,640**	**36,888**	**–**	**25,956**	**17,530**	**(14,057)**	**4,993,957**

Notes to the Financial Statements

(forming part of the Financial Statements)

2. Financial Risk Management (continued)

2.2 Credit risk (continued)

	Category 1 £'000	Category 2 £'000	Category 3 £'000	Past due but not impaired £'000	Category 4 and 5 £'000	Impairment allowance £'000	Total (net) £'000
Company							
At 31 March 2008							
Derivative financial instruments	11,197	–	–	–	–	–	11,197
Loans and advances to banks	992,618	–	–	–	–	–	992,618
Loans and advances to customers	1,337,865	107,612	14,112	–	1,129	(7,753)	1,452,965
Debt securities	1,853,604	27,225	–	–	29,399	(22,929)	1,887,299
Commitments and guarantees	1,111,625	26,743	–	–	–	–	1,138,368
Accounts receivable	98,683	–	–	1,992	5,064	(2,960)	102,779
Total	5,405,592	161,580	14,112	1,992	35,592	(33,642)	5,585,226
At 31 March 2007							
Derivative financial instruments	12,119	–	–	–	–	–	12,119
Loans and advances to banks	92,961	–	–	–	–	–	92,961
Loans and advances to customers	1,431,999	25,287	–	–	1,742	(7,593)	1,451,435
Debt securities	2,548,687	10,814	–	–	1,997	(275)	2,561,223
Commitments and guarantees	1,343,217	787	–	–	–	–	1,344,004
Credit default swaps	13,584	–	–	–	–	–	13,584
Accounts receivable	87,919	–	–	3,632	4,132	(2,714)	92,969
Total	**5,530,486**	**36,888**	**–**	**3,632**	**7,871**	**(10,582)**	**5,568,295**

2. Financial Risk Management (continued)

2.2 Credit risk (continued)

The tables below analyse amounts past due but not impaired:

	Past due by < 6 months £'000	Past due by > 6 months £'000	Total £'000
Group			
At 31 March 2008			
Loans and advances to customers	24,436	1,871	26,307
Accounts receivable	1,062	930	1,992
Total	**25,498**	**2,801**	**28,299**
At 31 March 2007			
Loans and advances to customers	17,265	5,059	22,324
Accounts receivable	3,510	122	3,632
Total	**20,775**	**5,181**	**25,956**
Company			
At 31 March 2008			
Accounts receivable	1,062	930	1,992
Total	**1,062**	**930**	**1,992**
At 31 March 2007			
Accounts receivable	3,510	122	3,632
Total	**3,510**	**122**	**3,632**

Financial assets with the following carrying values would have been classed as past due or impaired if they had not had their terms renegotiated in the year.

	Group		Company	
	2008 £'000	2007 £'000	2008 £'000	2007 £'000
Loans and advances to customers	20,524	–	20,524	–
Debt securities	380	–	380	–
Total	**20,904**	**–**	**20,904**	**–**

Notes to the Financial Statements

(forming part of the Financial Statements)

2. Financial Risk Management (continued)

2.2 Credit risk (continued)

b. Collateral

The Group holds collateral against loans and advances to customers and debt securities. Estimates of the fair value of collateral are made when a loan is approved, and are generally updated when a loan is individually assessed for impairment.

Collateral takes various forms. Property exposures are typically secured by fixed charges on the underlying property (93 per cent of the committed property loan book benefiting from first ranking charges) and may also be supported by other security or guarantees. All property is subject to a professional valuation at inception and may be revalued periodically through the life of the loan. Leveraged finance exposures are typically secured by fixed and floating charges over material assets of the borrower. The value of this security will vary over time and is dependent on the types of asset secured, the jurisdiction of the borrowers and the ability to dispose of the company as a going concern. Exposures in the natural resources sector are almost all secured. Security may take the form of corporate debentures, fixed charges on assets or charges on the cashflows arising out of commodity finance. Asset finance exposures are secured on assets including invoices, plant and equipment, stock and property.

The table below gives an estimate of the fair value of collateral held by the Group as security against loans to customers that are individually impaired and past due but not impaired.

	Past due but not impaired 2008 £'000	Individually impaired 2008 £'000	Past due but not impaired 2007 £'000	Individually impaired 2007 £'000
Group				
Property	9,232	865	6,020	–
Commercial vehicles and other equipment	18,855	7,763	18,495	6,990
Collateral held	**28,087**	**8,628**	**24,515**	**6,990**
Amount of loans collateralised	**26,307**	**12,050**	**22,324**	**9,659**

c. Credit risk concentrations

The Group monitors concentrations of credit risk by geographic location and by industry sector. The tables below show an analysis of credit risk by location and by sector. The location for loans and advances is determined by reference to the location of the borrower, and debt securities are recorded based on the location of the issuer of the security. The sector analysis is based on Global Industry Classification Standards and includes derivative financial instruments, loans and advances to banks, loans and advances to customers, debt securities, commitments and guarantees and credit default swaps.

Notes to the Financial Statements

(forming part of the Financial Statements)

2. Financial Risk Management (continued)

2.2 Credit risk (continued)

Credit risk by location	UK £'000	Europe £'000	North America £'000	South America £'000	Other £'000	Total £'000
Group						
At 31 March 2008						
Derivative financial instruments	6,740	3,300	425	–	747	11,212
Loans and advances to banks	725,250	276,186	140	–	104	1,001,680
Loans and advances to customers	970,857	375,429	129,769	24,777	21,374	1,522,206
Debt securities	549,430	1,050,210	179,453	7,463	100,743	1,887,299
Commitments and guarantees	111,242	77,257	76,029	2,755	5,953	273,236
Accounts receivable	61,206	39,652	5,761	2,471	6,229	115,319
Total	**2,424,725**	**1,822,034**	**391,577**	**37,466**	**135,150**	**4,810,952**
At 31 March 2007						
Derivative financial instruments	8,944	2,649	2,819	–	406	14,818
Loans and advances to banks	75,931	29,634	2,068	–	47	107,680
Loans and advances to customers	1,042,210	388,036	140,458	12,637	22,537	1,605,878
Debt securities	768,470	1,432,977	274,426	29,421	55,929	2,561,223
Commitments and guarantees	261,493	155,856	100,129	–	79,385	596,863
Credit default swaps	10,188	–	3,396	–	–	13,584
Accounts receivable	74,660	10,573	1,395	2,509	4,774	93,911
Total	**2,241,896**	**2,019,725**	**524,691**	**44,567**	**163,078**	**4,993,957**
Company						
At 31 March 2008						
Derivative financial instruments	6,725	3,300	425	–	747	11,197
Loans and advances to banks	716,224	276,186	140	–	68	992,618
Loans and advances to customers	938,282	338,763	129,769	24,777	21,374	1,452,965
Debt securities	549,430	1,050,210	179,453	7,463	100,743	1,887,299
Commitments and guarantees	976,374	77,257	76,029	2,755	5,953	1,138,368
Accounts receivable	48,666	39,652	5,761	2,471	6,229	102,779
Total	**3,235,701**	**1,785,368**	**391,577**	**37,466**	**135,114**	**5,585,226**
At 31 March 2007						
Derivative financial instruments	8,711	2,649	353	–	406	12,119
Loans and advances to banks	63,128	29,634	159	–	40	92,961
Loans and advances to customers	938,276	388,036	89,949	12,637	22,537	1,451,435
Debt securities	768,470	1,432,977	274,426	29,421	55,929	2,561,223
Commitments and guarantees	1,008,634	155,856	100,129	–	79,385	1,344,004
Credit default swaps	10,188	–	3,396	–	–	13,584
Accounts receivable	73,718	10,573	1,395	2,509	4,774	92,969
Total	**2,871,125**	**2,019,725**	**469,807**	**44,567**	**163,071**	**5,568,295**

Notes to the Financial Statements

(forming part of the Financial Statements)

2. Financial Risk Management (continued)

2.2 Credit risk (continued)

Credit risk by industry sector	2008 £'000	2007 £'000
Group		
Energy	131,548	144,089
Materials	282,293	290,075
Industrials	337,179	415,015
Consumer discretionary	210,484	344,832
Consumer staples	137,728	137,479
Health care	25,552	19,980
Financial (see below)	2,353,938	2,163,438
Real estate (see below)	747,644	831,314
IT and telecoms	73,009	133,043
Utilities	2,590	18,133
Governments	27,156	32,838
Private persons	21,978	29,645
Related party loans, commitments and guarantees	162,515	162,521
Other	182,019	177,644
Total	**4,695,633**	**4,900,046**
Company		
Energy	131,548	144,089
Materials	266,268	282,417
Industrials	265,792	355,108
Consumer discretionary	176,267	255,716
Consumer staples	125,983	129,138
Health care	18,271	10,444
Financial (see below)	2,344,697	2,149,421
Real estate (see below)	749,777	760,292
IT and telecoms	73,009	123,452
Utilities	2,590	4,250
Governments	36	–
Private persons	21,978	26,280
Related party loans, commitments and guarantees	1,124,212	1,057,075
Other	182,019	177,644
Total	**5,482,447**	**5,475,326**

Notes to the Financial Statements

(forming part of the Financial Statements)

2. Financial Risk Management (continued)

2.2 Credit risk (continued)

Financial and real estate sector exposures may be analysed as follows:

	Group		Company	
	2008	2007	2008	2007
	£'000	£'000	£'000	£'000
Financial sector				
Short term interbank exposures	1,160,149	816,323	1,150,892	802,306
Treasury marketable securities				
– Investment grade	1,105,772	1,242,420	1,105,772	1,242,420
Cash/investment backed lending	3,000	–	3,000	–
Finance companies	46,855	96,981	46,855	96,981
Insurance	5,512	5,175	5,512	5,175
Other	32,650	2,539	32,666	2,539
Total	2,353,938	2,163,438	2,344,697	2,149,421

Short term interbank lending and marketable securities are held for liquidity management purposes.

	Group		Company	
	2008	2007	2008	2007
	£'000	£'000	£'000	£'000
Real estate sector				
Senior loans	688,844	786,714	690,977	715,692
Subordinated/mezzanine	58,800	44,600	58,800	44,600
Total	747,644	831,314	749,777	760,292

Real estate exposures are supported by income generated by a large number of tenants from a wide variety of industry sectors. Exposures are broadly evenly split between the major property types and are located predominantly within the UK. There is minimal exposure to speculative development, and development facilities are provided in respect of pre-sold or pre-let properties, or with access to additional security and/or guarantees. Exposures with an element of development financing represented 15.0 per cent of senior loans (£103.0 million) as at 31 March 2008. Of these, £6.0 million related to speculative developments.

As described in the Business Review, the portfolio of structured financial products which had a fair value of £106 million on 31 March 2008 were sold after the balance sheet date to an affiliated company outside the Group. The assets were sold at fair value for a surplus of approximately £1 million in excess of the year end carrying value. Accordingly, the Group and the Company had no further exposure to this asset class following this sale.

2. Financial Risk Management (continued)

2.3 Market risk

Market risk arises as a result of the Group's activities in interest rate, currency, equity and debt markets and comprises interest rate, foreign exchange, equity and debt position risk. During the year, exposure to market risk has continued to be small in relation to capital, as trading activities have been focused on servicing client requirements rather than on proprietary risk-taking.

Limits on market risk exposure are set by the Executive Committee. Monitoring of market risk limits and determination of trading profits are undertaken daily, independently of the dealing area. Risk limits are complemented by other measures and controls, including stress testing to estimate the losses that could occur when markets behave in unusually volatile ways and with little liquidity.

Market risks associated with treasury, leveraged finance loan trading and equity positions are described below with a description of risk management and the levels of risk.

The market risk arising in the Company's subsidiary undertakings is immaterial.

Treasury

Market risk in treasury activities arises from interest rate and foreign exchange positions. Foreign exchange and interest rate contracts are used for trading and for hedging purposes. Risk is monitored daily using a sensitivity-based value at risk approach, which determines the effect of changes in market price factors, including currency prices, interest rates and volatilities, on positions. Shifts in market price factors and correlations are calculated weekly, or more frequently in turbulent markets, using the industry standard of 99 per cent probability over a ten day holding period for all risks except currency position risk, which is measured using a 99 per cent probability over a one day holding period. The market risk figures below are derived from weekly figures.

	12 months to 31 March 2008			12 months to 31 March 2007		
	Average	High	Low	Average	High	Low
Company	£'000	£'000	£'000	£'000	£'000	£'000
Interest rate risk	1,025	1,837	529	889	1,230	640
Foreign exchange risk	5	14	–	4	14	–
Total value at risk	1,030	1,851	529	893	1,244	640

The main assumption used in the calculation is that price factors are normally distributed. This is a common assumption in value at risk calculations but is known to be tenuous, particularly for interest rates and volatilities, and is one of the reasons for the use of a high probability over a long holding period.

Notes to the Financial Statements

(forming part of the Financial Statements)

2. Financial Risk Management (continued)

2.3 Market risk (continued)

Leveraged finance loan trading

Market risk in this book is calculated using sensitivity and stress tests based on an analysis of movements in historical market prices, bid/offer spreads and appropriate indices. At 31 March 2008, there were no leveraged finance loan trading positions.

	12 months to 31 March 2008			12 months to 31 March 2007		
	Average £'000	High £'000	Low £'000	Average £'000	High £'000	Low £'000
Price sensitivity	240	540	110	160	190	130

Equities

The Group has exposure to equity price risk through holdings of equity investments and warrants on equity investments. Each of these positions is individually approved by senior management and is monitored on an individual basis. The table below shows the Group's equity price risk in relation to these instruments by location.

Equity price risk by location	UK £'000	Europe £'000	North America £'000	Other £'000	Total £'000
Group					
At 31 March 2008					
Equity investments and trading positions	6,290	91,838	–	878	99,006
Warrants and other equity derivatives	–	175	412	–	587
At 31 March 2007					
Equity investments and trading positions	3,655	3	16	1,873	5,547
Warrants and other equity derivatives	447	152	–	–	599
Company					
At 31 March 2008					
Equity investments and trading positions	4,742	91,838	–	1	96,581
Warrants and other equity derivatives	–	175	412	–	587
At 31 March 2007					
Equity investments and trading positions	2,224	3	16	996	3,239
Warrants and other equity derivatives	447	152	–	–	599

If the price of all the equities and of those equities on which derivative instruments are dependent were to fall by 5 per cent, then for the Group there would be a post-tax charge to the income statement of £21,000 and a charge to equity of £3,465,000 (2007: £55,000 and £159,000 respectively), and for the Company there would be a post-tax charge to the income statement of £21,000 and a charge to equity of £3,380,000 (2007: £55,000 and £79,000 respectively).

The Group and the Company have potential exposure to equity investments as a result of the Company's underwriting activities. At the year end the net contractual commitment was £20,386,000 (2007: £105,277,000), after taking account of sub-underwriting commitments received.

Notes to the Financial Statements

(forming part of the Financial Statements)

2. Financial Risk Management (continued)

2.3 Market risk (continued)

Currency risk

The Group takes on exposure to the effects of fluctuations in foreign currency exchange rates on its financial position and cash flows. The table below summarises exposure to foreign currency exchange rate risk. The net positions in the table below are measured by reference to the foreign currency exposures of monetary assets and liabilities after taking account of positions in derivatives.

	Group		Company	
	2008	2007	2008	2007
	Long/(short)		Long/(short)	
	£'000	£'000	£'000	£'000
US$	6,201	14,587	6,148	13,117
Euro	5,839	5,174	5,633	3,344
Other	199	468	179	(1,405)

If the value of these currencies fell by 5 per cent, then for the Group there would be a post-tax charge to the income statement of £428,000 (2007: £708,000) and for the Company there would be a post-tax charge to the income statement of £419,000 (2007: £527,000).

Interest rate risk

The table below summarises exposure to interest rate risk by showing the impact on the fair value of interest-bearing assets and liabilities, and of interest rate derivatives, if base interest rates in each currency shown moved up or down by 1 per cent. This table includes all interest rate risk, including that within the treasury and banking businesses and also the structural interest rate exposure that arises from the reinvestment of fixed rate subordinated debt capital and shareholders' funds. Over 90 per cent of the sterling interest rate risk as at 31 March 2008 is due to these structural interest rate exposures, mainly arising from the £75 million perpetual fixed rate subordinated debt. The total exposure has increased from the prior year as offsetting treasury positions have reduced.

2. Financial Risk Management (continued)

2.3 Market risk (continued)

	£ £'000	Euro £'000	US$ £'000
Group			
At 31 March 2008			
+1%	9,165	3,607	302
-1%	(10,311)	(3,648)	(305)
At 31 March 2007			
+1%	4,444	(567)	340
-1%	(6,615)	584	(343)
Company			
At 31 March 2008			
+1%	7,912	3,607	302
-1%	(9,058)	(3,648)	(305)
At 31 March 2007			
+1%	3,118	(567)	340
-1%	(5,289)	584	(343)

2.4 Liquidity risk

Management of liquidity risk is of paramount importance to the Group, to ensure that it can meet its liabilities as they fall due. The Group's strategy for the management of liquidity focuses on the maintenance of a diversified funding base of appropriate duration in relation to the Group's assets. Liquidity is measured by classifying cash flows into future time bands using a series of prudent assumptions and calculating the resultant surplus or deficit in each period. The analysis of cash flows generally reflects the contractual maturity of financial assets and liabilities except in the following cases:

- marketable debt securities are included in the demand time band (discounted by factors set out in the FSA's mismatch liquidity guidelines), reflecting the fact that these assets are traded in liquid markets and can readily be converted to cash. Where such assets have been pledged as collateral in sale and repurchase agreements, they are included in the time band corresponding to the maturity of the sale and repurchase agreement;
- certain classes of customer deposits are included in a time band longer than their contractual maturity, as historical data for these types of deposit show that the deposits are not typically repaid on their contractual maturity dates. This "behavioural adjustment" has been agreed with the FSA for liquidity monitoring and reporting and is subject to regular review;
- 15 per cent of undrawn loan commitments are included as a cash outflow in the 'demand' time band in accordance with the FSA's mismatch liquidity guidelines; and
- interest and certain other cash flows relating to future income and expenses payable and receivable later than six months in the future are excluded from the liquidity analysis.

2. Financial Risk Management (continued)

2.4 Liquidity risk (continued)

Liquidity is monitored daily independently of the front office Treasury staff responsible for day-to-day liquidity management, and is subject to oversight by the Group's Assets and Liabilities Committee and the Executive Committee. The Executive Committee sets cash flow mismatch limits for each period. The Company is also subject to liquidity guidelines imposed by the FSA.

The tables below analyse the Group's assets and liabilities that are subject to liquidity risk into relevant time bands using the method described above. 'Other' includes certain other financial assets and liabilities, as well as items such as interest cash flows up to six months, dividends (payable and receivable), taxation and other cashflows. Interest cashflows up to six months on derivatives are included in the derivative financial instruments figures.

The net liquidity gap represents the difference between cash inflows and outflows arising in a particular time period. Timing differences in cash flows arise in the ordinary course of the Group's banking and treasury activities as a result of the difference in the maturity profile of assets and liabilities. The cumulative liquidity gap represents the theoretical cash position that would arise on the assumption that all liabilities mature on their adjusted maturity dates and are not replaced, and that assets are maintained at current levels. In practice, liabilities are extended and new liabilities are taken on as part of the Group's day to day funding activities. The Group manages the maturity profile of assets and liabilities in accordance with its liquidity policy and with regulatory and internal limits.

The differences in the cumulative liquidity gaps as at 31 March 2008 and 31 March 2007 represent a significant increase in liquidity resulting from the actions taken to reduce liquidity risk in response to adverse money market conditions, by the extension of liability duration and a reduction in banking assets, with a corresponding increase in short-term loans to banks. The steps taken to extend the duration of liabilities are described in the Business Review on pages 13 to 22.

Notes to the Financial Statements

(forming part of the Financial Statements)

2. Financial Risk Management (continued)

2.4 Liquidity risk (continued)

Group	Demand £'000	Demand -3m £'000	3m-1yr £'000	>1yr £'000	Total £'000
At 31 March 2008					
Cash and balances at central banks	27	1,291	–	–	1,318
Loans and advances to banks	736,693	251,508	–	13,479	1,001,680
Derivative financial instruments	115,089	131,698	15,656	753	263,196
Loans and advances to customers	60,337	62,082	413,287	986,500	1,522,206
Debt and equity securities	355,296	50,335	768,029	665,669	1,839,329
Other	4,100	27,134	8,682	1,345	41,261
Total	**1,271,542**	**524,048**	**1,205,654**	**1,667,746**	**4,668,990**
Deposits by banks	68,977	304,493	291,026	2,276	666,772
Repurchase agreements	–	50,335	836,265	226,899	1,113,499
Due to customers	154,286	331,289	331,995	4,000	821,570
Derivative financial instruments	115,089	136,768	11,865	895	264,617
Debt securities in issue	–	332,304	350,377	556,752	1,239,433
Subordinated loan capital	–	–	–	244,639	244,639
Other	1,948	93,354	83,659	–	178,961
Commitments	33,428	–	–	–	33,428
Total	**373,728**	**1,248,543**	**1,905,187**	**1,035,461**	**4,562,919**
Net liquidity gap	**897,814**	**(724,495)**	**(699,533)**	**632,285**	
Cumulative liquidity gap	**897,814**	**173,319**	**(526,214)**	**106,071**	
At 31 March 2007					
Cash and balances at central banks	21	758	–	–	779
Loans and advances to banks	98,984	8,696	–	–	107,680
Derivative financial instruments	22	12,533	9,463	4,803	26,821
Loans and advances to customers	12,528	147,886	500,489	944,975	1,605,878
Debt and equity securities	1,134,663	774,877	13,651	457,517	2,380,708
Other	775	29,465	5,624	467	36,331
Total	**1,246,993**	**974,215**	**529,227**	**1,407,762**	**4,158,197**
Deposits by banks	77,589	892,787	283,791	1,270	1,255,437
Repurchase agreements	–	769,796	–	–	769,796
Due to customers	173,647	357,079	206,818	402	737,946
Derivative financial instruments	82	13,291	9,054	2,306	24,733
Debt securities in issue	–	238,097	25,403	611,262	874,762
Subordinated loan capital	–	–	–	227,684	227,684
Other	21,916	123,978	96,216	41,150	283,260
Commitments	72,845	–	–	–	72,845
Total	**346,079**	**2,395,028**	**621,282**	**884,074**	**4,246,463**
Net liquidity gap	**900,914**	**(1,420,813)**	**(92,055)**	**523,688**	
Cumulative liquidity gap	**900,914**	**(519,899)**	**(611,954)**	**(88,266)**	

Notes to the Financial Statements

(forming part of the Financial Statements)

2. Financial Risk Management (continued)

2.4 Liquidity risk (continued)

Company	Demand £'000	Demand -3m £'000	3m-1yr £'000	>1yr £'000	Total £'000
At 31 March 2008					
Cash and balances at central banks	27	1,291	–	–	1,318
Loans and advances to banks	727,631	251,508	–	13,479	992,618
Derivative financial instruments	115,089	131,689	15,650	753	263,181
Loans and advances to customers	31,512	45,896	500,538	875,019	1,452,965
Debt and equity securities	355,296	50,335	768,029	665,669	1,839,329
Other	1,019	22,236	10,832	–	34,087
Total	**1,230,574**	**502,955**	**1,295,049**	**1,554,920**	**4,583,498**
Deposits by banks	68,973	304,493	291,026	2,276	666,768
Repurchase agreements	–	50,335	836,265	226,899	1,113,499
Due to customers	162,726	334,341	491,068	560,755	1,548,890
Derivative financial instruments	115,089	136,736	11,712	753	264,290
Debt securities in issue	–	332,304	191,305	–	523,609
Subordinated loan capital	–	–	–	244,639	244,639
Other	1,988	93,356	86,185	–	181,529
Commitments	37,928	–	–	–	37,928
Total	**386,704**	**1,251,565**	**1,907,561**	**1,035,322**	**4,581,152**
Net liquidity gap	**843,870**	**(748,610)**	**(612,512)**	**519,598**	
Cumulative liquidity gap	**843,870**	**95,260**	**(517,252)**	**2,346**	
At 31 March 2007					
Cash and balances at central banks	21	758	–	–	779
Loans and advances to banks	86,002	6,959	–	–	92,961
Derivative financial instruments	22	12,443	9,351	2,306	24,122
Loans and advances to customers	13,269	137,444	490,592	810,130	1,451,435
Debt and equity securities	1,134,663	774,877	13,651	457,517	2,380,708
Other	622	22,349	6,248	–	29,219
Total	**1,234,599**	**954,830**	**519,842**	**1,269,953**	**3,979,224**
Deposits by banks	76,588	892,787	166,277	1,270	1,136,922
Repurchase agreements	–	769,796	–	–	769,796
Due to customers	184,013	357,079	208,947	611,664	1,361,703
Derivative financial instruments	82	13,291	9,054	2,306	24,733
Debt securities in issue	–	238,097	25,403	–	263,500
Subordinated loan capital	–	–	–	227,684	227,684
Other	19,063	108,496	90,751	31,384	249,694
Commitments	77,945	–	–	–	77,945
Total	**357,691**	**2,379,546**	**500,432**	**874,308**	**4,111,977**
Net liquidity gap	**876,908**	**(1,424,716)**	**19,410**	**395,645**	
Cumulative liquidity gap	**876,908**	**(547,808)**	**(528,398)**	**(132,753)**	

Notes to the Financial Statements

(forming part of the Financial Statements)

2. Financial Risk Management (continued)

2.5 Maturity of financial liabilities

The following tables show contractual cash flows payable by the Group and the Company on financial liabilities, analysed by remaining contractual maturity at the balance sheet date. This table does not reflect the liquidity position of the Group or Company. For the purposes of these tables, derivative liabilities are considered to include all cashflows payable relating to hedging derivatives. Interest cashflows on undated subordinated debt and the related derivative cashflow hedges are shown up to five years only, with the principal balance shown in the perpetual column.

Group	Demand £'000	Demand -3m £'000	3m-1yr £'000	1yr-5yr £'000	>5yr £'000	Perpetual £'000	Total £'000
At 31 March 2008							
Deposits by banks	68,995	309,618	305,683	2,340	–	–	686,636
Repurchase agreements	–	54,144	863,052	240,506	–	–	1,157,702
Due to customers	262,033	409,589	168,080	4,208	–	–	843,910
Derivatives - hedging	–	8,494	15,480	37,796	1,827	–	63,597
Debt securities in issue	–	343,011	388,158	595,623	–	–	1,326,792
Subordinated liabilities	–	3,417	10,140	54,228	–	244,639	312,424
Other liabilities	–	27,082	2,670	2,637	–	–	32,389
Commitments	222,850	–	–	–	–	–	222,850
Total	**553,878**	**1,155,355**	**1,753,263**	**937,338**	**1,827**	**244,639**	**4,646,300**
At 31 March 2007							
Deposits by banks	77,656	900,800	288,614	1,400	–	–	1,268,470
Repurchase agreements	–	775,117	–	–	–	–	775,117
Due to customers	253,252	459,304	30,568	422	–	–	743,546
Derivatives - hedging	–	4,948	11,596	35,492	3	–	52,039
Debt securities in issue	–	244,815	40,487	675,266	–	–	960,568
Subordinated liabilities	–	3,550	10,688	57,069	–	227,684	298,991
Other liabilities	155	38,071	1,963	2,612	–	–	42,801
Commitments	485,635	–	–	–	–	–	485,635
Total	**816,698**	**2,426,605**	**383,916**	**772,261**	**3**	**227,684**	**4,627,167**

Notes to the Financial Statements

(forming part of the Financial Statements)

2. Financial Risk Management (continued)

2.5 Maturity of financial liabilities (continued)

Company	Demand £'000	Demand -3m £'000	3m-1yr £'000	1yr-5yr £'000	>5yr £'000	Perpetual £'000	Total £'000
At 31 March 2008							
Deposits by banks	68,991	309,618	305,683	2,340	–	–	686,632
Repurchase agreements	–	54,144	863,052	240,506	–	–	1,157,702
Due to customers	270,473	421,245	358,896	599,834	–	–	1,650,448
Derivatives - hedging	–	8,494	15,480	37,796	1,827	–	63,597
Debt securities in issue	–	334,421	197,343	–	–	–	531,764
Subordinated liabilities	–	3,417	10,140	54,228	–	244,639	312,424
Other liabilities	–	22,184	–	–	–	–	22,184
Commitments	252,850	–	–	–	–	–	252,850
Total	592,314	1,153,523	1,750,594	934,704	1,827	244,639	4,677,601
At 31 March 2007							
Deposits by banks	76,655	900,800	171,100	1,400	–	–	1,149,955
Repurchase agreements	–	775,117	–	–	–	–	775,117
Due to customers	263,622	466,589	44,534	675,688	–	–	1,450,433
Derivatives - hedging	–	4,948	11,596	35,492	3	–	52,039
Debt securities in issue	–	239,667	26,522	–	–	–	266,189
Subordinated liabilities	–	3,550	10,688	57,069	–	227,684	298,991
Other liabilities	–	28,091	–	–	–	–	28,091
Commitments	519,635	–	–	–	–	–	519,635
Total	859,912	2,418,762	264,440	769,649	3	227,684	4,540,450

Notes to the Financial Statements

(forming part of the Financial Statements)

3. Classification and Fair Value of Financial Assets and Liabilities

The table below sets out the Group's classification of its financial assets and liabilities under IAS 39 as described in note 1, together with their fair value.

Group	Trading £'000	Loans and Receivables £'000	Available-For-Sale £'000	Other Amortised Cost £'000	Total Carrying Amount £'000	Total Fair Value £'000
At 31 March 2008						
Cash and balances at central banks	–	1,318	–	–	1,318	1,318
Derivative financial instruments	11,212	–	–	–	11,212	11,212
Loans and advances to banks	–	1,001,680	–	–	1,001,680	1,001,680
Loans and advances to customers	–	1,522,206	–	–	1,522,206	1,516,045
Debt and equity securities	–	–	1,986,305	–	1,986,305	1,986,305
Other financial assets	–	115,319	–	–	115,319	115,319
Total financial assets	**11,212**	**2,640,523**	**1,986,305**	**–**	**4,638,040**	**4,631,879**
Deposits by banks	–	–	–	666,772	666,772	666,772
Repurchase agreements	–	–	–	1,113,499	1,113,499	1,110,953
Due to customers	–	–	–	821,570	821,570	821,570
Derivative financial instruments (including synthetic CDOs)	47,751	–	–	–	47,751	47,751
Debt securities in issue	–	–	–	1,239,433	1,239,433	1,221,048
Subordinated liabilities	–	–	–	239,472	239,472	172,810
Other financial liabilities	–	–	–	28,944	28,944	28,944
Total financial liabilities	**47,751**	**–**	**–**	**4,109,690**	**4,157,441**	**4,069,848**
At 31 March 2007						
Cash and balances at central banks	–	779	–	–	779	779
Derivative financial instruments	14,818	–	–	–	14,818	14,818
Loans and advances to banks	–	107,680	–	–	107,680	107,680
Loans and advances to customers	31,459	1,574,419	–	–	1,605,878	1,605,878
Debt and equity securities	996	–	2,565,774	–	2,566,770	2,566,770
Other financial assets	–	201,425	–	–	201,425	201,425
Total financial assets	**47,273**	**1,884,303**	**2,565,774**	**–**	**4,497,350**	**4,497,350**
Deposits by banks	–	–	–	1,255,437	1,255,437	1,255,437
Repurchase agreements	–	–	–	769,796	769,796	769,796
Due to customers	–	–	–	737,946	737,946	737,946
Derivative financial instruments	14,582	–	–	–	14,582	14,582
Debt securities in issue	–	–	–	874,762	874,762	878,380
Subordinated liabilities	–	–	–	224,890	224,890	219,437
Other financial liabilities	–	–	–	112,989	112,989	112,989
Total financial liabilities	**14,582**	**–**	**–**	**3,975,820**	**3,990,402**	**3,988,567**

No financial assets or liabilities were designated as at fair value through profit or loss on inception.

Notes to the Financial Statements

(forming part of the Financial Statements)

3. Classification and Fair Value of Financial Assets and Liabilities (continued)

Company	Trading £'000	Loans and Receivables £'000	Available-For-Sale £'000	Other Amortised Cost £'000	Total Carrying Amount £'000	Total Fair Value £'000
At 31 March 2008						
Cash and balances at central banks	–	1,318	–	–	1,318	1,318
Derivative financial instruments	11,197	–	–	–	11,197	11,197
Loans and advances to banks	–	992,618	–	–	992,618	992,618
Loans and advances to customers	–	1,452,965	–	–	1,452,965	1,446,804
Debt and equity securities	–	–	1,983,880	–	1,983,880	1,983,880
Other financial assets	–	107,152	–	–	107,152	107,152
Total financial assets	**11,197**	**2,554,053**	**1,983,880**	**–**	**4,549,130**	**4,542,969**
Deposits by banks	–	–	–	666,768	666,768	666,768
Repurchase agreements	–	–	–	1,113,499	1,113,499	1,110,953
Due to customers	–	–	–	1,548,890	1,548,890	1,530,505
Derivative financial instruments (including synthetic CDOs)	47,424	–	–	–	47,424	47,424
Debt securities in issue	–	–	–	523,609	523,609	523,609
Subordinated liabilities	–	–	–	239,472	239,472	172,810
Other financial liabilities	–	–	–	17,966	17,966	17,966
Total financial liabilities	**47,424**	**–**	**–**	**4,110,204**	**4,157,628**	**4,070,035**
At 31 March 2007						
Cash and balances at central banks	–	779	–	–	779	779
Derivative financial instruments	12,119	–	–	–	12,119	12,119
Loans and advances to banks	–	92,961	–	–	92,961	92,961
Loans and advances to customers	31,459	1,419,976	–	–	1,451,435	1,451,435
Debt and equity securities	996	–	2,563,466	–	2,564,462	2,564,462
Other financial assets	–	181,379	–	–	181,379	181,379
Total financial assets	**44,574**	**1,695,095**	**2,563,466**	**–**	**4,303,135**	**4,303,135**
Deposits by banks	–	–	–	1,136,922	1,136,922	1,136,922
Repurchase agreements	–	–	–	769,796	769,796	769,796
Due to customers	–	–	–	1,361,703	1,361,703	1,361,703
Derivative financial instruments	14,582	–	–	–	14,582	14,582
Debt securities in issue	–	–	–	263,500	263,500	266,681
Subordinated liabilities	–	–	–	224,890	224,890	219,437
Other financial liabilities	–	–	–	79,961	79,961	79,961
Total financial liabilities	**14,582**	**–**	**–**	**3,836,772**	**3,851,354**	**3,849,082**

No financial assets or liabilities were designated as at fair value through profit or loss on inception.

Notes to the Financial Statements

(forming part of the Financial Statements)

3. Classification and Fair Value of Financial Assets and Liabilities (continued)

Fair value of financial instruments

Fair value is the amount for which an asset could be exchanged, or a liability settled, between knowledgeable, willing parties in an arm's length transaction. For financial instruments carried at fair value, market prices or rates are used to determine that fair value where an active market exists (such as a recognised exchange), as it is the best evidence of the fair value of a financial instrument. Market prices are not, however, available for certain financial assets and liabilities held or issued by the Group. Where no active market price or rate is available, fair values are estimated using present value or other valuation techniques, using inputs based on market conditions existing at the balance sheet date. The valuation may be derived from quotations received from various sources. Where the market is illiquid, the quotations may not be supported by prices from actual market transactions.

Valuation techniques are generally applied to over the counter derivative transactions and unlisted debt and equity securities. The most frequently applied pricing models and valuation techniques include discounted cashflow techniques and option valuation models. The values derived from applying these techniques are significantly affected by the choice of valuation model used and the assumptions made concerning factors such as the amounts and timing of future cash flows, discount rates, volatility, and credit quality.

The methods adopted to determine the fair value of each type of financial asset or liability are summarised below:

- Cash and balances at central banks, loans and advances to banks and deposits by banks. Fair value of these instruments is considered to be the same as their carrying value due to the short term nature of the financial asset or liability.

- Derivative financial instruments and debt and equity securities are carried in the balance sheet at fair value, usually determined using market prices or valuations provided by third parties. Debt securities or unlisted equity securities for which no price is available are valued by discounting expected future cashflows at market interest rates adjusted for appropriate credit spreads. Within debt securities, a portfolio of a small number of asset backed securities has been difficult to price due to a lack of liquidity in the market. The fair value of these securities is based on external estimates together with values ascribed to them in repo transactions. As a result of the global credit crunch, there are few underlying transactions against which to calibrate these valuations and quoted prices are significantly below par value although the assets are not considered to be impaired. Nonetheless, where there is a quoted market price, it has been used to determine fair value at the balance sheet date.

- Loans and advances to customers have been reviewed and their terms and pricing compared to recent similar transactions. Where a material difference in terms and/or pricing has been observed, or where there is any other indication that the fair value of the asset differs materially from its carrying value, the disclosed fair value has been adjusted accordingly.

- Repurchase agreements and amounts due to customers. The fair value of these instruments is determined by discounting the future cashflows at market interest rates adjusted for the appropriate credit spread.

Notes to the Financial Statements

(forming part of the Financial Statements)

3. Classification and Fair Value of Financial Assets and Liabilities (continued)

- **Debt securities in issue and subordinated liabilities.** Fair value is determined using quoted market prices where available, or by discounting the future cashflows at market interest rates adjusted for the appropriate credit spread.
- **Other financial assets and liabilities.** Fair value is considered to be the same as carrying value for these assets.

The table below sets out the net gains or losses recognised in the year relating to each category of financial assets and liabilities.

Group	Trading/ Synthetic CDOs £'000	Loans and Receivables £'000	Available-For-Sale £'000	Other Amortised Cost £'000	Other Income and Expenses £'000	Total £'000
At 31 March 2008						
Net interest income	–	206,511	106,409	(247,782)	–	65,138
Net fee and commission income	–	11,562	–	–	313,494	325,056
Dividend income	–	–	118	–	–	118
Net trading income	5,207	–	–	–	–	5,207
Fair value movements	(33,184)	–	–	–	–	(33,184)
Gains less losses from debt and equity securities	–	–	6,650	–	–	6,650
Other operating income	–	(190)	–	–	8,314	8,124
Impairment losses on financial assets	–	1,866	(65,623)	–	–	(63,757)
Net operating income	**(27,977)**	**219,749**	**47,554**	**(247,782)**	**321,808**	**313,352**
At 31 March 2007						
Net interest income	–	169,347	104,900	(209,160)	–	65,087
Net fee and commission income	–	14,401	–	–	312,361	326,762
Dividend income	–	–	243	–	–	243
Net trading income	2,579	–	–	–	–	2,579
Gains less losses from debt and equity securities	–	–	670	–	–	670
Other operating income	–	2,340	–	–	4,366	6,706
Impairment losses on financial assets	–	709	(283)	–	–	426
Net operating income	**2,579**	**186,797**	**105,530**	**(209,160)**	**316,727**	**402,473**

Other income and expenses arise from sources other than financial assets and financial liabilities.

Notes to the Financial Statements

(forming part of the Financial Statements)

4. Net Interest Income

	2008 £'000	2007 £'000
Interest income		
Loans and advances	206,511	169,347
Investment securities	106,409	104,900
	312,920	274,247
Interest expense and similar charges		
Amounts due to banks and customers	174,054	142,529
Debt securities in issue	58,539	52,556
Subordinated liabilities	15,189	14,075
	247,782	209,160

Included within interest income is £1,434,000 (2007: £1,491,000) in respect of interest income accrued on impaired financial assets.

5. Net Fee and Commission Income

	2008 £'000	2007 £'000
Fee and commission income		
Banking and credit-related fees and commissions	11,562	14,401
Fees for advisory work and other services	324,310	321,336
Other fees	4,191	3,322
	340,063	339,059
Fee and commission expense		
Investment banking advisory fees paid	14,864	11,779
Other fees paid	143	518
	15,007	12,297

Investment banking advisory fees paid represent fees paid to other members of the Rothschild group where the Company has worked in collaboration with another group company in a transaction, or fees paid to any subcontracted parties outside the Rothschild group.

6. Dividend Income

	2008 £'000	2007 £'000
Available-for-sale securities	118	243

Notes to the Financial Statements

(forming part of the Financial Statements)

7. Net Trading Income

	2008 £'000	2007 £'000
Foreign exchange contracts	2,209	(1,324)
Interest rate instruments - trading	737	2,864
Interest rate instruments - hedging	314	(2)
Equities	1,947	1,041
	5,207	**2,579**

Net trading income arises from movements in the fair value of financial assets held for trading and from hedging strategies. The following activities give rise to net trading income:

- Trading in foreign exchange spot, forward and option contracts, loans, interest rate futures, swaps and forward rate agreements.
- Holding equities for trading purposes and positions arising from the underwriting of equity and equity-related issues.

Gains and losses on the ineffective portion of designated hedging relationships are also recognised in net trading income.

8. Fair Value Movements

Fair value movements represent the change in fair value of synthetic CDO investments attributable to credit derivatives, as explained in note 1. Synthetic CDOs take on credit exposure in the form of credit derivatives which, under IFRS, must be treated as "embedded derivatives" with changes in fair value recognised in the income statement.

9. Operating Expenses

	Note	2008 £'000	2007 £'000
Staff costs	10	251,445	280,588
Administrative expenses		45,704	46,498
		297,149	**327,086**

The auditor's remuneration was as follows:

	2008 £'000	2007 £'000
Audit fees relating to the Company	205	210
Audit fees relating to subsidiary undertakings	209	270
	414	**480**

Notes to the Financial Statements

(forming part of the Financial Statements)

9. Operating Expenses (continued)

Remuneration payable to the auditor and its associates for non-audit work was as follows:

	2008 £'000	2007 £'000
Non-audit services pursuant to legislation including interim reviews	40	50
Tax services	187	110
Regulatory advice	28	107
Transaction support	–	22
Accounting advice	40	88
Other work	14	15
	309	**392**

10. Staff Costs

	Note	2008 Group £'000	2008 Company £'000	2007 Group £'000	2007 Company £'000
Salaries (excluding profit share)		63,565	50,624	58,146	45,670
Social security costs		6,971	5,628	6,365	5,188
Staff benefits and other staff costs		14,526	12,269	22,601	21,469
Pension costs					
– Defined benefit plans	25	2,063	2,063	189	189
– Defined contribution plans	25	2,813	1,719	4,151	3,257
Post-retirement benefits		598	596	427	427
Staff costs (excluding profit share)		**90,536**	**72,899**	**91,879**	**76,200**
Directors' and employees' annual profit share		143,125	138,392	153,352	150,648
Long term profit share schemes		17,784	17,059	35,357	34,617
Directors' and employees' profit share		**160,909**	**155,451**	**188,709**	**185,265**
Total staff costs	9	**251,445**	**228,350**	**280,588**	**261,465**

The average number of persons employed by the Group during the year was 995 (2007: 979). The number of persons employed at 31 March 2008 was 1,008 (2007: 942). The average number of persons employed by the Company during the year was 738 (2007: 690). The number of persons employed by the Company at 31 March 2008 was 757 (2007: 703).

Notes to the Financial Statements

(forming part of the Financial Statements)

11. Taxation

Tax charged to the income statement:

	2008 £'000	2007 £'000
Current tax		
– Current period	2,953	19,768
– Prior year adjustments	(993)	(810)
Total current tax	**1,960**	**18,958**
Deferred tax		
– Origination and reversal of timing differences	1,764	2,808
– Prior year adjustments	(270)	856
Total deferred tax	**1,494**	**3,664**
Total tax charged to income statement	**3,454**	**22,622**

Tax on items credited/(charged) to equity:

	2008 £'000	2007 £'000
Deferred tax on available-for-sale investments	12,378	(92)
Current tax on available-for-sale investments	11,712	1,872
Deferred tax on cash flow hedges	(355)	500
Deferred tax on actuarial gains and losses on defined benefit pension schemes	(4,033)	893
Impact on deferred tax of corporation tax rate change	(480)	–
Total tax credited to equity	**19,222**	**3,173**

The tax charged on income differs from the theoretical amount that would arise using the standard tax rate as follows:

	2008 £'000	2007 £'000
Profit before tax	28,474	79,689
Tax calculated at the UK corporation tax rate of 30% (2007: 30%)	8,542	23,907
Adjustment to tax charge in respect of prior years	(1,263)	46
Income from associate recorded net of tax in profit before tax	(4,986)	(2,220)
Impact on deferred tax of corporation tax rate change	2,017	–
Non tax deductible expenses	775	843
Effect of different tax rates in other countries	3,422	177
Income not subject to tax	(2,539)	(171)
Previously unrecorded deferred tax now recognised	(1,817)	–
Other	(697)	40
Total tax charged to income statement	**3,454**	**22,622**

Further information about deferred tax is presented in note 24.

Notes to the Financial Statements

(forming part of the Financial Statements)

12. Group Profit Dealt with in the Financial Statements of the Company

£20,074,000 (2007: £126,355,000) of the Group profit attributable to ordinary shareholders has been dealt with in the accounts of the Company. As permitted by Section 230 of the Companies Act 1985, the income statement of the Company has not been presented separately.

13. Derivative Financial Instruments

The Group's use of financial instruments, including derivatives, is set out in note 2. A derivative is a financial instrument, the value of which is derived from the value of another financial instrument, an index or some other variable (the "underlying"). Typically the underlying is an interest rate, a currency exchange rate or the price of a debt or equity security. The majority of derivative contracts are negotiated as to amount, tenor and price between the Group and its counterparties, whether other professionals or customers, and are known as "over the counter" ("OTC") derivatives. The remainder are standardised in terms of their amounts and settlement dates and are bought and sold in organised markets, and are known as exchange traded derivatives.

Derivative instruments are carried at fair value, shown in the balance sheet as separate totals of positive replacement values (assets) and negative replacement values (liabilities). Positive replacement values represent the cost to the Group of replacing all transactions with a fair value in the Group's favour if the counterparties default. Negative replacement values represent the cost to the Group's counterparties of replacing all their transactions with the Group with a fair value in the counterparties' favour if the Group were to default. Positive and negative replacement values on different transactions are only netted if there is a legal right of set-off, the transactions are with the same counterparty and the cash flows will be settled on a net basis. Changes in replacement values of derivative instruments are recognised in trading income unless they qualify as cashflow hedges for accounting purposes.

The Group uses the following derivative financial instruments for both trading and hedging purposes:

- Forward contracts and futures – contractual obligations to buy or sell financial instruments on a future date at a specified price. Forward contracts are OTC contracts, whereas futures are exchange traded derivatives.
- Interest rate swaps – transactions in which two parties exchange interest cash flows on a specified notional amount for a predetermined period. Most swaps are OTC instruments. Interest rate swap contracts generally entail the contractual exchange of fixed and floating rate interest payments in a single currency.
- Options – contractual agreements under which the seller grants the purchaser the right but not the obligation to buy or sell by or at a future date a specified quantity of a financial instrument at a predetermined price. The purchaser pays a premium to the seller for this right. Options may be transacted OTC or on a regulated exchange.

Derivatives may be transacted for trading or hedging purposes. Trading involves taking positions with the intention of profiting from changes in market variables such as interest rates. The Group enters into derivative transactions primarily for the purpose of hedging exposures in the non-trading book. The accounting treatment of hedge transactions depends on the nature of the hedging relationship and whether the hedge qualifies as such for accounting purposes. Derivative transactions may qualify as hedges for accounting purposes as either fair value or cash flow hedges.

13. Derivative Financial Instruments (continued)

Fair Value Hedges

The Group's fair value hedges consist of interest rate swaps that are used to protect against changes in the fair value of fixed rate lending, fixed rate debt securities and fixed rate borrowing.

The fair value of derivatives designated as fair value hedges at 31 March 2008 was £4,358,000 (2007: £7,967,000). Fair value losses of £3,383,000 (2007: gains of £3,495,000) on derivatives held in qualifying fair value hedging relationships are included in net trading income. Fair value gains of £3,388,000 (2007: losses of £3,804,000), which relate to changes in fair value of hedged items attributable to the hedged risk, are also included in net trading income.

Cashflow Hedges

The Group is exposed to variability in future interest cash flows on non-trading assets and issued debt securities which receive or pay interest at variable rates.

Gains and losses on the effective portion of interest rate swaps designated as cash flow hedges are recorded in shareholders' equity. Gains or losses on any ineffective portion of these swaps are recognised immediately in the income statement.

A profit of £309,000 (2007: profit of £307,000) was recognised in the income statement in respect of the ineffective portion of cash flow hedges.

The fair value of derivatives designated as cash flow hedges at 31 March 2008 was (£9,135,000) (2007: (£10,391,000)). At 31 March 2008, an unrecognised fair value loss of £792,000 (2007: £1,869,000) associated with these derivatives has remained deferred in shareholders' equity and will be transferred to the income statement when the hedged cash flows affect profit or loss. Amounts relating to cash flow hedges transferred to profit or loss during the period are included in net trading income.

The schedule of cash flows hedged is as follows:

Group and Company	1 year or less £'000	More than 1 year but not more than 3 years £'000	More than 3 years but not more than 5 years £'000	More than 5 years but not more than 10 years £'000	More than 10 years £'000
As at 31 March 2008					
Cash outflows (liabilities)	(5,580)	(10,099)	(10,508)	(29,468)	(101,486)
As at 31 March 2007					
Cash outflows (liabilities)	(4,952)	(10,061)	(10,335)	(26,928)	(93,356)

Notes to the Financial Statements

(forming part of the Financial Statements)

13. Derivative Financial Instruments (continued)

	Notional principal 2008 £'000	Notional principal 2007 £'000	Positive fair value 2008 £'000	Positive fair value 2007 £'000	Negative fair value 2008 £'000	Negative fair value 2007 £'000
Group						
Contracts held for risk management purposes						
Derivatives designated as hedges						
Fair value interest rate swaps	789,959	461,350	6,257	8,035	(1,899)	(68)
Cash flow interest rate swaps	119,305	101,877	–	–	(9,135)	(10,391)
Other derivatives held for risk management purposes						
Interest rate swaps	141,139	258,421	1,102	2,153	(427)	(611)
OTC interest rate options	11,135	9,509	61	49	–	–
Other	–	13,584	–	–	–	(25)
	1,061,538	**844,741**	**7,420**	**10,237**	**(11,461)**	**(11,095)**
Contracts held for trading purposes						
Forward foreign exchange contracts	242,501	10,470	839	393	(911)	(396)
Interest rate swaps	133,600	121,258	1,169	1,649	(990)	(1,207)
OTC interest rate options	499,349	471,269	1,197	1,940	(1,205)	(1,884)
Other	–	–	587	599	–	–
	875,450	**602,997**	**3,792**	**4,581**	**(3,106)**	**(3,487)**
Other derivatives						
Credit derivatives embedded in synthetic CDOs	113,243	–	–	–	(33,184)	–
	2,050,231	**1,447,738**	**11,212**	**14,818**	**(47,751)**	**(14,582)**

Notes to the Financial Statements

(forming part of the Financial Statements)

13. Derivative Financial Instruments (continued)

	Notional principal		Positive fair value		Negative fair value	
	2008	2007	2008	2007	2008	2007
	£'000	£'000	£'000	£'000	£'000	£'000
Company						
Contracts held for risk management purposes						
Derivatives designated as hedges						
Fair value interest rate swaps	789,959	326,346	6,257	5,569	(1,899)	(68)
Cash flow interest rate swaps	119,305	101,877	–	–	(9,135)	(10,391)
Other derivatives held for risk management purposes						
Interest rate swaps	90,000	195,721	1,087	1,920	(100)	(611)
OTC interest rate options	11,135	9,509	61	49	–	–
Other	–	13,584	–	–	–	(25)
	1,010,399	**647,037**	**7,405**	**7,538**	**(11,134)**	**(11,095)**
Contracts held for trading purposes						
Forward foreign exchange contracts	242,501	10,470	839	393	(911)	(396)
Interest rate swaps	133,600	121,258	1,169	1,649	(990)	(1,207)
OTC interest rate options	499,349	471,269	1,197	1,940	(1,205)	(1,884)
Other	–	–	587	599	–	–
	875,450	**602,997**	**3,792**	**4,581**	**(3,106)**	**(3,487)**
Other derivatives						
Credit derivatives embedded in synthetic CDOs	113,243	–	–	–	(33,184)	–
	1,999,092	**1,250,034**	**11,197**	**12,119**	**(47,424)**	**(14,582)**

14. Loans and Advances

	2008 Group £'000	2008 Company £'000	2007 Group £'000	2007 Company £'000
Loans and advances to banks:				
Included in cash and cash equivalents	988,201	979,139	107,680	92,961
Other	13,479	13,479	–	–
	1,001,680	**992,618**	**107,680**	**92,961**
Loans and advances to customers:				
Loans and advances to customers - at amortised cost	1,533,613	1,460,718	1,585,487	1,427,569
Loans and advances held for trading - at fair value	–	–	31,459	31,459
Allowance for credit losses	(11,407)	(7,753)	(11,068)	(7,593)
	1,522,206	**1,452,965**	**1,605,878**	**1,451,435**

14. Loans and Advances (continued)

Loans and advances to customers include finance lease receivables:

Group	2008 £'000	2007 £'000
Gross investment in finance leases, receivable:		
1 year or less	50,403	48,092
5 years or less but over 1 year	86,865	81,818
Over 5 years	1,829	1,362
	139,097	**131,272**
Unearned future finance income on finance leases	(26,331)	(23,816)
Net investment in finance leases	**112,766**	**107,456**

The net investment in finance leases may be analysed as follows:

Group	2008 £'000	2007 £'000
1 year or less	40,371	38,927
5 years or less but over 1 year	70,837	67,376
Over 5 years	1,558	1,153
	112,766	**107,456**

The movement in the allowance for credit losses on loans and advances is as follows:

	Group Specific £'000	Group Collective £'000	Group Total £'000	Company Specific £'000	Company Collective £'000	Company Total £'000
At 1 April 2007	**2,865**	**8,203**	**11,068**	**216**	**7,377**	**7,593**
(Credit)/charge to income statement	(1,675)	(191)	(1,866)	421	(190)	231
Amounts written off	(109)	–	(109)	(109)	–	(109)
Recoveries	2,314	–	2,314	38	–	38
At 31 March 2008	**3,395**	**8,012**	**11,407**	**566**	**7,187**	**7,753**

Interest income on impaired loans and advances to customers was £1,434,000 (2007: £1,491,000).

Allowance for credit losses relates to loans to customers.

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15. Debt and Equity Securities

	2008 Group £'000	2008 Company £'000	2007 Group £'000	2007 Company £'000
Securities available for sale				
Debt securities	1,557,053	1,557,053	2,310,709	2,310,709
Loans and advances	353,175	353,175	250,789	250,789
Allowance for impairment	(22,929)	(22,929)	(275)	(275)
Total debt securities - at fair value	**1,887,299**	**1,887,299**	**2,561,223**	**2,561,223**
Equity securities	99,907	97,482	5,452	3,144
Allowance for impairment	(901)	(901)	(901)	(901)
Total equity securities - at fair value	**99,006**	**96,581**	**4,551**	**2,243**
Total securities available for sale	**1,986,305**	**1,983,880**	**2,565,774**	**2,563,466**
Securities held for trading				
Equity securities held for trading - at fair value	–	–	996	996
Total debt and equity securities	**1,986,305**	**1,983,880**	**2,566,770**	**2,564,462**
Debt and equity securities may be analysed as follows:				
Debt securities				
– Listed	1,412,227	1,412,227	1,599,132	1,599,132
– Unlisted	121,897	121,897	711,302	711,302
Loans and advances	353,175	353,175	250,789	250,789
Total debt securities	**1,887,299**	**1,887,299**	**2,561,223**	**2,561,223**
Equity securities				
– Listed	43,725	42,177	2,538	1,106
– Unlisted	55,281	54,404	3,009	2,133
Total equity securities	**99,006**	**96,581**	**5,547**	**3,239**
Total debt and equity securities	**1,986,305**	**1,983,880**	**2,566,770**	**2,564,462**

Available-for-sale debt securities of £1,219,969,000 (2007: £831,256,000) were pledged as security under sale and repurchase agreements.

Equity securities as at 31 March 2008 include shares in Paris Orléans SA, Rothschild & Cie Banque and Rothschild Holding AG, fellow subsidiaries of Rothschild Concordia SAS, as explained in note 31.

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15. Debt and Equity Securities (continued)

The movement in the impairment allowance for debt and equity securities is as follows:

	Group £'000	Company £'000
Debt securities		
At 1 April 2007	275	275
Charge to income statement	65,623	65,623
Exchange movements	429	429
Amounts written off	(29,681)	(29,681)
Disposals (sale and redemption)	(13,717)	(13,717)
At 31 March 2008	**22,929**	**22,929**
Equity securities		
At 1 April 2007	901	901
At 31 March 2008	**901**	**901**

The movement in debt and equity securities may be summarised as follows:

	Available for sale £'000	Held for trading £'000	Total £'000
Group			
At 1 April 2007	**2,565,774**	**996**	**2,566,770**
Exchange differences	197,600	–	197,600
Additions	681,727	561	682,288
Acquisition of subsidiary undertaking	19,734	–	19,734
Disposals (sales and redemptions)	(1,331,282)	(1,557)	(1,332,839)
Losses from changes in fair value	(94,913)	–	(94,913)
Movement in allowance for impairment	(22,654)	–	(22,654)
Amounts written off	(29,681)	–	(29,681)
At 31 March 2008	**1,986,305**	**–**	**1,986,305**
Company			
At 1 April 2007	**2,563,466**	**996**	**2,564,462**
Exchange differences	197,600	–	197,600
Additions	681,727	561	682,288
Disposals (sale and redemption)	(1,311,548)	(1,557)	(1,313,105)
Losses from changes in fair value	(95,030)	–	(95,030)
Movement in allowance for impairment	(22,654)	–	(22,654)
Amounts written off	(29,681)	–	(29,681)
At 31 March 2008	**1,983,880**	**–**	**1,983,880**

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16. Investments in Associated Undertakings

Group	2008 £'000	2007 £'000
At 1 April	14,080	12,119
Additions	4,513	64
Disposals	–	(2,275)
Share of results (net of tax)	16,619	7,403
Losses from changes in fair value	(207)	–
Dividends	(8,654)	(2,891)
Exchange differences	3,850	(340)
At 31 March	30,201	14,080

The Group's interests in its principal associated undertakings, which are unlisted, are as follows:

Group's share of:	2008 £'000	2007 £'000
Assets	80,790	41,550
Liabilities	49,579	26,951
Revenues	70,268	42,792
Results (net of tax)	16,619	7,403

The Company has a holding of 50.0 per cent (2007: 50.0 per cent) of the issued ordinary share capital of Rothschild Europe BV. Rothschild Europe BV, incorporated in The Netherlands, is a holding company whose subsidiary undertakings carry out investment banking advisory activities in continental Europe. During the year ended 31 March 2008, the Company acquired a 40.0 per cent interest in Quintus European Mezzanine Fund Limited Partnership, a Jersey limited partnership that is an investment vehicle for institutional investors. The acquisition was settled with cash consideration.

The Group's interests in associated undertakings are held by the Company at historical cost of £10,105,000 (2007: £5,592,000).

17. Investments in Joint Ventures

a. Jointly controlled entities

The company holds a 50.0 per cent interest in N M Rothschild Europe Partnership, an English partnership, and a 50.0 per cent interest in Rothschild Europe SNC, a French partnership. These partnerships undertake investment banking advisory activities in continental Europe and are accounted for as jointly controlled entities in accordance with IAS 31 Interests in Joint Ventures using the proportionate consolidation method. The Group's share of assets, liabilities, income and expenses of the partnerships is as follows:

Group's share of:	2008 £'000	2007 £'000
Current assets	10,702	11,186
Current liabilities	5,982	4,449
Income	14,736	15,134
Expenses	8,096	(5,883)

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17. Investments in Joint Ventures (continued)

The Group's interest in the jointly controlled entities is held directly by the Company at historical cost of £429,000 (2007: £429,000).

b. Jointly controlled operations

The Company had entered into a collaboration with ABN AMRO Bank NV pursuant to which the equity capital markets activities of the ABN AMRO group and the Rothschild group were conducted jointly in the name of ABN AMRO Rothschild. Following a change in ownership of ABN AMRO Bank NV, the collaboration ceased with effect from 31 December 2007. The Group's share of underwriting commitments arising from the ABN AMRO Rothschild arrangement is disclosed in note 26; since 31 March 2008, these commitments have been transferred to ABN AMRO Bank NV.

18. Intangible Assets

Group	Note	Intellectual Property Rights £'000	Goodwill £'000	Total £'000
Cost at 1 April 2007		1,000	4,409	5,409
Acquisition of subsidiary undertaking	34	–	9,786	9,786
At 31 March 2008		**1,000**	**14,195**	**15,195**
Accumulated amortisation at 1 April 2007		475	–	475
Amortisation charge		100	–	100
At 31 March 2008		**575**	**–**	**575**
Net book value at 31 March 2008		**425**	**14,195**	**14,620**
Cost at 1 April 2006		1,000	4,409	5,409
At 31 March 2007		**1,000**	**4,409**	**5,409**
Accumulated amortisation at 1 April 2006		375	–	375
Amortisation charge		100	–	100
At 31 March 2007		**475**	**–**	**475**
Net book value at 31 March 2007		**525**	**4,409**	**4,934**

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19. Property, Plant and Equipment

Group	Land and Buildings £'000	Leasehold Improvements £'000	Cars, Fixtures and Fittings £'000	Computer Equipment £'000	Total £'000
Cost at 1 April 2007	–	2,168	19,493	21,688	43,349
Additions	–	6,577	3,063	1,882	11,522
Disposals	–	–	(6,679)	(1,562)	(8,241)
Acquisition of subsidiary undertaking	16,614	6,614	90	31	23,349
At 31 March 2008	**16,614**	**15,359**	**15,967**	**22,039**	**69,979**
Accumulated depreciation at 1 April 2007	–	2,024	13,320	19,623	34,967
Disposals	–	–	(6,035)	(1,560)	(7,595)
Depreciation charge	–	623	2,405	1,220	4,248
Acquisition of subsidiary undertaking	–	20	32	27	79
At 31 March 2008	**–**	**2,667**	**9,722**	**19,310**	**31,699**
Net book value at 31 March 2008	**16,614**	**12,692**	**6,245**	**2,729**	**38,280**
Cost at 1 April 2006	1,982	2,222	19,357	20,945	44,506
Additions	–	–	3,119	1,347	4,466
Disposals	(494)	–	(2,604)	(448)	(3,546)
Disposal of subsidiary undertaking	(1,488)	(54)	(379)	(156)	(2,077)
At 31 March 2007	**–**	**2,168**	**19,493**	**21,688**	**43,349**
Accumulated depreciation at 1 April 2006	403	1,849	13,096	19,187	34,535
Disposals	–	–	(1,526)	(444)	(1,970)
Depreciation charge - continuing operations	–	175	1,966	860	3,001
Depreciation charge - discontinued operations	134	–	95	95	324
Disposal of subsidiary undertaking	(537)	–	(311)	(75)	(923)
At 31 March 2007	**–**	**2,024**	**13,320**	**19,623**	**34,967**
Net book value at 31 March 2007	**–**	**144**	**6,173**	**2,065**	**8,382**

Included within the net book value of cars, fixtures and fittings for the Group as at 31 March 2008 is £3,998,000 (2007: £3,698,000) relating to assets held for use in operating leases.

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19. Property, Plant and Equipment (continued)

Company	Land and Buildings £'000	Leasehold Improvements £'000	Cars, Fixtures and Fittings £'000	Computer Equipment £'000	Total £'000
Cost at 1 April 2007	–	2,168	11,491	19,099	32,758
Additions	50,000	6,577	224	1,613	58,414
Disposals	–	–	(5,597)	(1,493)	(7,090)
At 31 March 2008	**50,000**	**8,745**	**6,118**	**19,219**	**84,082**
Accumulated depreciation at 1 April 2007	–	2,024	10,359	17,852	30,235
Disposals	–	–	(5,585)	(1,492)	(7,077)
Depreciation charge	–	615	464	899	1,978
At 31 March 2008	**–**	**2,639**	**5,238**	**17,259**	**25,136**
Net book value at 31 March 2008	**50,000**	**6,106**	**880**	**1,960**	**58,946**
Cost at 1 April 2006	–	2,168	11,318	18,588	32,074
Additions	–	–	238	517	755
Disposals	–	–	(65)	(6)	(71)
At 31 March 2007	**–**	**2,168**	**11,491**	**19,099**	**32,758**
Accumulated depreciation at 1 April 2006	–	1,849	9,945	17,272	29,066
Disposals	–	–	(64)	(6)	(70)
Depreciation charge	–	175	478	586	1,239
At 31 March 2007	**–**	**2,024**	**10,359**	**17,852**	**30,235**
Net book value at 31 March 2007	**–**	**144**	**1,132**	**1,247**	**2,523**

20. Other Assets

	Note	2008 Group £'000	2008 Company £'000	2007 Group £'000	2007 Company £'000
Accounts receivable and prepayments (net of allowances of £2,960,000 (2007: £2,714,000))		119,625	107,152	105,448	99,654
Defined benefit pension asset	25	7,554	7,554	–	–
Accrued income		34,534	34,484	48,227	48,064
Other		6,478	1,170	2,425	1,055
		168,191	**150,360**	**156,100**	**148,773**

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21. Debt Securities in Issue

	2008 Group £'000	2008 Company £'000	2007 Group £'000	2007 Company £'000
Medium term floating rate notes	715,824	–	611,262	–
Certificates of deposit in issue	523,609	523,609	263,500	263,500
	1,239,433	523,609	874,762	263,500

Medium term notes are issued under the Group's Euro Medium Term Note programme. The notes are issued at a floating rate of interest and had residual maturities of between 11 months and 3 years 6 months as at 31 March 2008 (2007: between 1 year 11 months and 4 years 6 months). Certificates of deposit issued by the Company had residual maturity dates of up to 6 months as at 31 March 2008 (2007: 10 months) and are issued at a fixed rate of interest.

22. Subordinated Liabilities

	2008 Group £'000	2008 Company £'000	2007 Group £'000	2007 Company £'000
Preference shares				
£100,000 cumulative redeemable preference shares	100	100	100	100
Subordinated notes				
Perpetual floating rate subordinated notes (€150 million)	102,250	–	87,315	–
Due to fellow subsidiary undertakings				
Perpetual floating rate subordinated loan (€150 million)	–	102,250	–	87,315
Perpetual floating rate subordinated loan (US$100 million)	37,752	37,752	38,105	38,105
Perpetual fixed rate subordinated loan (£75 million)	99,370	99,370	99,370	99,370
	239,472	239,472	224,890	224,890

The €150 million perpetual floating rate subordinated notes were issued by Rothschilds Continuation Finance PLC, a subsidiary undertaking of the Company. The notes are guaranteed by the Company, and the proceeds of the note issue have been lent to the Company as a perpetual floating rate subordinated loan. The US$100 million perpetual floating rate subordinated loan is due to Rothschilds Continuation Finance BV. The £75 million perpetual fixed rate subordinated loan is due to Rothschilds Continuation Finance (C.I.) Limited; the interest rate has been fixed at 9 1/64 per cent. The subordinated notes and subordinated loans are recorded in the balance sheet at their fair value as at 30 March 2006, as explained below.

In accordance with the requirements of IAS 32 Financial Instruments: Disclosure and Presentation, the subordinated debt instruments were accounted for as equity minority interests from 1 April 2005 (the date of adoption of IAS 32 and IAS 39) to 30 March 2006.

22. Subordinated Liabilities (continued)

IAS 32 requires financial instruments to be accounted for as equity instruments where there is no contractual obligation to repay principal or to pay interest. As the subordinated debt instruments are perpetual, there is no contractual obligation to repay principal. The terms of the instruments permit interest payments to be waived unless the Company has paid a dividend in the preceding six months. The payment of dividends on ordinary shares is not considered sufficient to cause the instruments to be classified as liabilities because the Group controls the payment of dividends on ordinary shares. On 30 March 2006, the Company issued £100,000 cumulative redeemable preference shares with mandatory 5 per cent dividends, payable quarterly. Because the payment of dividends on the preference shares is compulsory, the payment of interest on the subordinated debt instruments is also, in effect, compulsory and the subordinated debt instruments were reclassified as liabilities on 30 March 2006. In accordance with the requirements of IAS 39, on reclassification the debt instruments were recognised as liabilities at their fair value on 30 March 2006.

23. Other Liabilities

	Note	2008 Group £'000	2008 Company £'000	2007 Group £'000	2007 Company £'000
Accounts payable		28,944	17,966	58,372	42,773
Defined benefit pension liabilities	25	2,214	2,214	13,273	13,273
Other liabilities		21,338	2,502	610	558
		52,496	**22,682**	**72,255**	**56,604**

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24. Deferred Income Taxes

Deferred taxes are calculated on all temporary differences under the liability method using an effective tax rate of 28 per cent (2007: 30 per cent).

The movement on the deferred tax account is as follows:

	2008 Group £'000	2008 Company £'000	2007 Group £'000	2007 Company £'000
At 1 April	43,528	39,245	46,579	40,253
Acquisition/(disposal) of subsidiary	2,448	–	(446)	–
Recognised in income				
Income statement charge				
– Continuing operations	(1,494)	(2,113)	(3,664)	(2,653)
– Discontinued operations	–	–	(242)	–
Recognised in equity				
Defined benefit pension arrangements	(4,033)	(4,033)	893	1,145
Available-for-sale securities				
– Fair value measurement	12,378	12,414	(92)	–
Cash flow hedges				
– Fair value measurement	(355)	(355)	439	439
– Transfer to income	–	–	61	61
Effect on deferred tax of corporation tax rate change	(480)	(532)	–	–
At 31 March	51,992	44,626	43,528	39,245

Deferred tax assets are attributable to the following items:

	2008 Group £'000	2008 Company £'000	2007 Group £'000	2007 Company £'000
Accelerated tax depreciation	6,519	3,187	6,807	2,714
Deferred profit share arrangements	27,226	26,773	26,021	25,434
Pension and other post-retirement benefits	(95)	(95)	6,982	6,982
Available-for-sale securities	10,688	11,324	(1,958)	(1,312)
Cash flow hedges	222	222	593	593
Allowance for credit losses	1,741	1,652	2,074	1,991
Other temporary differences	5,691	1,563	3,009	2,843
	51,992	44,626	43,528	39,245

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24. Deferred Income Taxes (continued)

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

	2008 Group £'000	2008 Company £'000	2007 Group £'000	2007 Company £'000
Accelerated tax depreciation	(770)	473	(2,787)	(766)
Deferred profit share arrangements	1,205	1,339	9,620	9,033
Available-for-sale securities	144	144	111	125
Pensions and other post-retirement benefits	(2,520)	(2,520)	(9,416)	(9,416)
Allowance for credit losses	(333)	(339)	167	(221)
Other temporary differences	780	(1,210)	(1,359)	(1,408)
	(1,494)	**(2,113)**	**(3,664)**	**(2,653)**

The amount of deductible temporary differences relating to unutilised tax losses for which no deferred tax asset has been recognised is £nil (2007: £2,228,000).

Deferred tax liabilities have not been recognised for the withholding tax and other taxes that would be payable on the unremitted earnings of certain subsidiaries and other interests as it is not anticipated that such profits will be distributed in the foreseeable future. If such earnings were remitted, tax of £42,000 (2007: £685,000) would be payable.

The UK corporation tax rate was reduced from 30 per cent to 28 per cent with effect from 1 April 2008. Net deferred tax assets have been restated to reflect this change in the corporation tax rate.

25. Retirement Benefit Obligations

Defined benefit pension plans and other post-retirement benefits

The Company is a member of a group pension scheme, the NMR Pension Fund ("the Fund"), which is operated by the Company for the benefit of employees of certain Rothschild group companies in the United Kingdom. The Fund comprises a defined benefit section, which closed to new entrants in April 2003, and a defined contribution scheme established with effect from April 2003. The Company has unfunded obligations in respect of pensions and other post-retirement benefits.

The Group and the Company have adopted the revisions to IAS 19 which were published in December 2004. Actuarial gains and losses are recognised in full in the period in which they occur, outside the income statement through the statement of recognised income and expense.

The latest formal actuarial valuation of the Fund was carried out as at 31 March 2007 and has been updated for IAS 19 purposes to 31 March 2008 by qualified independent actuaries. As required by IAS 19, the value of the defined benefit obligation and current service cost have been measured using the projected unit credit method.

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25. Retirement Benefit Obligations (continued)

The principal actuarial assumptions used as at the balance sheet date were as follows:

Group and Company	2008	2007	2006
Discount rate	6.50%	5.40%	5.00%
Retail price inflation	3.60%	3.10%	2.90%
Expected return on plan assets	6.80%	6.80%	6.50%
Expected rate of salary increases	4.60%	4.10%	3.90%
Expected rate of increase in pensions in payment			
– Capped at 5.0% per annum	3.50%	3.10%	2.90%
– Capped at 2.5% per annum	2.30%	2.20%	2.20%
Life expectancy of a pensioner aged 60			
– Male	26.4	25.0	23.5
– Female	28.9	28.0	26.6
Life expectancy of a future pensioner aged 60 in 20 years' time			
– Male	27.7	26.2	24.8
– Female	29.9	29.1	27.8

Amounts recognised in the balance sheet:

	2008 Group £'000	2008 Company £'000	2007 Group £'000	2007 Company £'000	2006 Group £'000	2006 Company £'000
Present value of funded obligations	415,210	415,210	444,396	444,396	457,165	436,970
Fair value of plan assets	(422,764)	(422,764)	(433,465)	(433,465)	(420,984)	(403,612)
	(7,554)	**(7,554)**	**10,931**	**10,931**	**36,181**	**33,358**
Present value of unfunded obligations	2,214	2,214	2,342	2,342	2,486	2,486
Balance sheet (asset)/liability	**(5,340)**	**(5,340)**	**13,273**	**13,273**	**38,667**	**35,844**

Movement in defined benefit obligation:

	2008 Group £'000	2008 Company £'000	2007 Group £'000	2007 Company £'000
At 1 April	**446,738**	**446,738**	**459,651**	**439,456**
Current service cost (net of contributions paid by other plan participants)	6,392	6,392	8,257	7,659
Current service cost relating to other plan participants	1,028	1,028	1,234	1,234
Interest cost	23,919	23,919	22,898	21,880
Actuarial (gains)/losses	(46,581)	(46,581)	302	660
Benefits paid	(14,072)	(14,072)	(12,012)	(11,758)
Curtailments and settlements	–	–	(14,417)	(12,393)
Disposal of subsidiary undertaking	–	–	(19,175)	–
At 31 March	**417,424**	**417,424**	**446,738**	**446,738**

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(forming part of the Financial Statements)

25. Retirement Benefit Obligations (continued)

Movement in plan assets:

	2008 Group £'000	2008 Company £'000	2007 Group £'000	2007 Company £'000
At 1 April	433,465	433,465	420,984	403,612
Expected return on plan assets	28,248	28,248	26,269	25,184
Actuarial gains/(losses)	(33,138)	(33,138)	(2,249)	(3,157)
Contributions by the Group	7,233	7,233	28,799	26,577
Contributions by other plan participants	1,028	1,028	1,234	1,234
Benefits paid	(14,072)	(14,072)	(12,012)	(11,758)
Curtailments and settlements	–	–	(9,592)	(8,227)
Disposal of interest in subsidiary undertaking	–	–	(19,968)	–
At 31 March	422,764	422,764	433,465	433,465

At 31 March, the fair value of plan assets comprised:

Group and Company	2008 £'000	2007 £'000
Equities	196,610	215,035
Bonds	73,621	71,911
Gilts and cash	79,957	83,889
Property	17,589	21,108
Hedge funds	23,426	21,357
PFI and private equity	31,561	20,165
	422,764	433,465

The expected return on assets for the financial year ended 31 March 2008 was 6.8 per cent p.a. (2007: 6.5 per cent). The rate of return is derived from the weighted average of the long term expected rates of return on the asset classes in the Trustees' intended long term investment strategy. A deduction was then made from the expected return on assets for the expenses incurred in running the Fund.

The actual return on plan assets in the year was a loss of £4.9 million (2007: a gain of £22.0 million).

Amounts recognised in income statement:

	Note	2008 Group £'000	2008 Company £'000	2007 Group £'000	2007 Company £'000
Current service cost		6,392	6,392	8,257	7,659
Interest cost		23,919	23,919	22,898	21,880
Expected return on plan assets		(28,248)	(28,248)	(26,269)	(25,184)
Settlement gains		–	–	(4,825)	(4,166)
Total (included in staff costs)	10	2,063	2,063	61	189

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(forming part of the Financial Statements)

25. Retirement Benefit Obligations (continued)

Amounts for current and previous four periods are as follows:

	2008 £'000	2007 £'000	2006 £'000	2005 £'000	2004 £'000
Group					
Present value of fund obligations	415,210	444,396	457,165	397,053	348,447
Fair value of plan assets	(422,764)	(433,465)	(420,984)	(336,305)	(304,669)
Present value of unfunded obligations	2,214	2,342	2,486	2,843	1,193
Balance sheet (asset)/liability	**(5,340)**	**13,273**	**38,667**	**63,591**	**44,971**
Company					
Present value of fund obligations	415,210	444,396	436,970	380,073	333,898
Fair value of plan assets	(422,764)	(433,465)	(403,612)	(322,432)	(292,230)
Present value of unfunded obligations	2,214	2,342	2,486	2,843	1,193
Balance sheet (asset)/liability	**(5,340)**	**13,273**	**35,844**	**60,484**	**42,861**

The experience adjustments arising on the plan assets and liabilities were as follows:

	2008 Group £'000	2008 Company £'000	2007 Group £'000	2007 Company £'000	2006 Group £'000	2006 Company £'000	2005 Group £'000	2005 Company £'000
Actual less expected return on assets	(33,138)	(33,138)	(2,249)	(3,157)	46,532	45,063	13,993	13,504
Experience gains and losses arising on liabilities	(2,982)	(2,982)	4,343	4,480	(300)	(311)	65	32

Amounts recognised in statement of recognised income and expense:

	2008 Group £'000	2008 Company £'000	2007 Group £'000	2007 Company £'000
Actuarial gains/(losses) recognised in the year	13,443	13,443	(2,551)	(3,817)
Cumulative actuarial losses recognised in the statement of recognised income and expense	(3,529)	(2,800)	(16,972)	(16,243)

It is estimated that total contributions of £8.5 million will be paid to the Fund and the unfunded obligations in the year ending 31 March 2009, of which it is estimated that the Company will pay £7.5 million.

The highest paid director was a member of a defined benefit pension scheme under which his accrued pension at the year end was £161,000 (2007: £161,000).

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(forming part of the Financial Statements)

25. Retirement Benefit Obligations (continued)

Defined contribution schemes

	Note	2008 Group £'000	2008 Company £'000	2007 Group £'000	2007 Company £'000
Contributions paid	10	2,813	1,719	4,151	3,257

These amounts represent contributions to the defined contribution section of the Fund and other defined contribution pension arrangements. In the year ended 31 March 2007, a contribution of £2.0 million was payable to a defined contribution pension arrangement for the highest paid director.

26. Contingent Liabilities and Commitments

	2008 Group £'000	2008 Company £'000	2007 Group £'000	2007 Company £'000
Guarantees				
Guarantees and irrevocable letters of credit	50,386	885,518	111,228	824,369
Commitments				
Undrawn formal standby facilities, credit lines and other commitments to lend	222,850	252,850	485,635	519,635
Underwriting commitments	20,386	20,386	268,715	268,715
	243,236	**273,236**	**754,350**	**788,350**

Underwriting commitments relate to equity capital markets transactions. After taking account of sub-underwriting commitments received, the net underwriting commitment was £20,386,000 (2007: £105,277,000).

From time to time the Group is involved in judicial proceedings or receives claims arising from the conduct of its business. Based upon available information and, where appropriate, legal advice, the directors do not believe that there are any potential or actual proceedings or other claims which will have a material adverse impact on the Group's financial position.

Assets pledged

Group and Company	2008 £'000	2007 £'000
Investment securities	1,219,969	831,256
Loans and receivables	169,559	–

Assets are pledged as security over Euroclear overdraft facilities and as collateral to secure liabilities under sale and repurchase agreements and borrowing facilities. These transactions are conducted under terms that are usual and customary to standard lending and securities borrowing and lending activities.

A mandatory reserve deposit of £1,291,000 (2007: £758,000) is held with the Bank of England in accordance with statutory requirements. This deposit is not available to finance the Group's day to day operations.

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27. Operating Lease Commitments

At 31 March 2008, the Group was obligated under a number of non-cancellable operating leases for premises used primarily for banking purposes. The significant premises leases usually include renewal options and escalation clauses in line with general office rental market conditions.

Minimum commitments for non-cancellable leases of premises and equipment are as follows:

	Land and Buildings		Computer Equipment	
	2008	2007	2008	2007
Group	£'000	£'000	£'000	£'000
Up to 1 year	7,461	7,781	–	45
Between 1 and 5 years	24,007	28,480	–	–
More than 5 years	19,853	30,191	–	–
	51,321	66,452	–	45

Operating expenses include operating lease rentals of £8,859,000 (2007: £9,352,000).

28. Share-based Payments

The Group operates three share-based payment schemes.

Employee share option plan

The Group operates a group Employee Share Option Plan administered by a parent undertaking, Rothschilds Continuation Holdings AG ("RCH"). On first time adoption of IFRS, the Group took the exemption in IFRS 1, whereby the requirements of IFRS 2 were not applied to share options granted prior to 7 November 2002. As such, the share options issued to directors of the Group have not been recognised in the financial statements.

Certain directors of the Group have options over 8,050 (2007: 8,050) shares in RCH, which were granted between 1995 and 2002. The options vest after being held for 3 years. An independent professional valuation of the underlying shares is performed annually and vested options may be exercised during the three month period following the valuation. The options have a contractual life of 10 years.

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

	2008		2007	
		Weighted Average Exercise Price		Weighted Average Exercise Price
	Number	SFr	Number	SFr
At 1 April	8,050	1,364	99,350	1,356
Expired	–	–	(1,100)	680
Cancelled	–	–	(90,200)	1,363
At 31 March	8,050	1,364	8,050	1,364
Exercisable at 31 March	8,050	1,364	8,050	1,364

28. Share-based Payments (continued)

Employees holding options that were cancelled in the year ended 31 March 2007 were compensated for the fair value of those options at an amount of £3,742,000, as determined by independent professional valuation and calculated using the Black-Scholes option pricing model.

Share options outstanding at 31 March were as follows:

	2008		2007	
Exercise price range SFr	Number of Options Outstanding	Weighted Average Contractual Life (Years)	Number of Options Outstanding	Weighted Average Contractual Life (Years)
1,001 - 1,250	3,000	3.1	3,000	4.1
1,251 - 1,500	5,050	2.2	5,050	3.2
	8,050	**2.5**	**8,050**	**3.5**

Partner share plan (PSP)

In the year ended 31 March 2007, the Group initiated a Partner Share Plan ("PSP"), administered by RCH. Under the PSP, certain senior employees of the Group purchased 54,302 shares in RCH in the year ended 31 March 2007. The difference between the sale price and the market value was expensed in the income statement. The fair value of the shares sold was determined by independent professional valuation, which is performed annually.

Shares purchased by employees were funded in part by an interest-free limited recourse loan provided by RCH (2007: £16,990,000), with the balance funded by the employees (2007: £4,247,000). Employees must use the proceeds from selling their shares in the first instance to repay the loan. Under the scheme rules, they would normally sell their shares upon leaving the Group; if they remain with the Group, they may sell their shares once they have held them for 3 years. The loans have a limited recourse feature ("the floor"): if the proceeds from selling the shares are insufficient for an employee to repay their loan to RCH, the remaining balance will be forgiven by the Group. While the risks and rewards of owning the RCH shares lie substantially with the employees, the floor is a benefit to the employees, and, in accordance with IFRS 2, it has the characteristics of a cash-settled share-based payment. The fair value of the floor is measured using the Black-Scholes option pricing model.

The cost of these arrangements charged/(credited) to the income statement in the period was:

	2008 £'000	2007 £'000
Discount on fair value of shares sold	–	1,004
Valuation of floor	(1,027)	1,523
Total	**(1,027)**	**2,527**
Carrying value of the liability arising under these arrangements	436	1,523

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(forming part of the Financial Statements)

28. Share-based Payments (continued)

Share-based payment acquisition

Certain directors of the Group are parties to a cash-settled share-based payment arrangement for the acquisition of a subsidiary company. The benefits of this arrangement vest after 30 September 2008 provided that certain conditions regarding the growth in the value of the relevant group company are met.

	2008 £'000	2007 £'000
Cost of these arrangements charged to the income statement	803	803
Carrying value of the liability arising under these arrangements	3,547	2,744

The value of the arrangements was calculated using a valuation of the company based upon an average of prior year, current and forecast post-tax profits and the price/earnings ratios of recent market transactions for similar businesses.

29. Dividends Per Share

	2008 per share	2008 £'000	2007 per share	2007 £'000
Equity Interests				
Interim dividends (paid)	35p	17,500	75p	37,500
Final dividend (paid)	–	–	40p	20,000
	35p	**17,500**	**115p**	**57,500**

30. Cash and Cash Equivalents

For the purposes of the cash flow statement, cash and cash equivalents comprise the following balances with less than three months' original maturity.

	2008 Group £'000	2008 Company £'000	2007 Group £'000	2007 Company £'000
Cash and balances at central banks	27	27	21	21
Loans and advances to banks	988,201	979,139	107,680	92,961
	988,228	**979,166**	**107,701**	**92,982**

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(forming part of the Financial Statements)

31. Transactions with Related Parties

Group

Transactions with key management personnel (and their connected persons) of the Group are as follows:

	2008 £'000	2007 £'000
At 31 March		
Loans and accrued interest	1,516	358
Deposits	653	391

Key management personnel are the directors of the Company and of parent companies.

Loans to directors are secured and are made in the ordinary course of business on normal commercial terms, with the exception of travel season ticket loans of £8,000 (2007: £7,000) which are unsecured and provided on an interest-free basis. Deposits are taken on normal commercial terms.

	2008 £'000	2007 £'000
Key management personnel compensation		
Short term employee benefits	23,592	22,348
Post-retirement benefits	106	90
Other long term employee benefits	1,782	6,294
Termination benefits	389	–

Details of share-based payments are disclosed in note 28. Approximately 36 per cent (2007: 32 per cent) of the amount credited/charged in the income statement for the Employee Share Option Plan and the Partner Share Plan relates to key management personnel.

Amounts receivable from related parties of the Group are as follows:

	2008		2007	
	Loans and Advances £'000	Other Assets £'000	Loans and Advances £'000	Other Assets £'000
At 31 March				
Amounts due from parent companies	82,499	83	46,364	246
Amounts due from associated undertakings	–	10,548	–	–
Amounts due from other related parties	3,136	8,094	43,538	10,537

Other related parties are fellow subsidiaries of Rothschild Concordia SAS.

Amounts receivable include loans to related parties and amounts recoverable from related parties in respect of expenses incurred on their behalf and services provided. Loans are made in the ordinary course of business and on substantially the same terms as comparable transactions with third parties.

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(forming part of the Financial Statements)

31. Transactions with Related Parties (continued)

Amounts payable to related parties of the Group are as follows:

	2008 Deposits £'000	2008 Subordinated Loan Capital £'000	2008 Other Liabilities £'000	2007 Deposits £'000	2007 Subordinated Loan Capital £'000	2007 Other Liabilities £'000
At 31 March						
Amounts due to parent companies	21,414	–	538	55,844	–	1,513
Amounts due to joint ventures	5,482	–	–	4,215	–	–
Amounts due to associated undertakings	–	–	2,941	–	–	–
Amounts due to pension funds	2,247	–	10	20,248	–	11
Amounts due to other related parties						
– subordinated	–	137,122	–	–	137,475	–
– other	274,613	–	3,093	27,489	–	5,622

Amounts payable consist of deposits taken and bank account balances held in the ordinary course of business and on substantially the same terms as comparable transactions with third parties. £137,122,000 (2007: £137,475,000) relates to amounts loaned to the Group on a subordinated basis, the terms of which are set out in note 22.

Guarantees from related parties of the Group are as follows:

At 31 March	2008 £'000	2007 £'000
Guarantees received from other related parties	153,283	69,464

The Group has received guarantees from a fellow subsidiary of Rothschild Concordia SAS in respect of certain customer loans.

Other transactions with related parties of the Group are as follows:

During the year, the Company acquired the entire share capital of New Court Property Services Limited from a fellow subsidiary of Rothschild Concordia SAS for a consideration of £1, the net asset value of the company. The principal asset of New Court Property Services Limited was a freehold property with a book value of £16,614,000 which was sold to the Company on 31 March 2008 at its fair value of £50,000,000.

During the year, the Group acquired a fixed asset from a parent undertaking for a consideration of £2,000. The asset was subsequently sold to a third party for a consideration of £763,000.

During the year, the Group acquired the entire share capital of Mist Two Limited from a fellow subsidiary of Rothschild Concordia SAS for a consideration of £1,000. The principal asset of Mist Two Limited was an equity investment with a cost of £12,425,000, which was subsequently sold to persons connected to key management personnel for consideration of £19,734,000, the fair value of the investment at the date of sale. The profit of £7,309,000 is included in the income statement under the caption "Gains less losses from available-for-sale debt and equity securities".

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31. Transactions with Related Parties (continued)

During the year, the Company issued 5,154,551 ordinary shares of £1 each to Rothschilds Continuation Holdings AG, a parent company, for a consideration of £103,091,000. The consideration comprised cash of £20,000,000 and shares in Paris Orléans SA, Rothschild & Cie Banque and Rothschild Holding AG, fellow subsidiaries and associates of Rothschild Concordia SAS, which were transferred at fair value.

Amounts recognised in the income statement of the Group in respect of related party transactions are as follows:

	Parent Companies £'000	Joint Ventures £'000	Associated Undertakings £'000	Pension Funds £'000	Other Related Parties £'000	Total £'000
2008						
Interest receivable	3,863	–	–	–	4,916	8,779
Interest payable	(3,040)	(259)	–	(267)	(21,944)	(25,510)
Fees and commissions receivable	–	–	–	–	120	120
Fees and commissions payable	–	(8,075)	(7,001)	–	(2,786)	(17,862)
Rent payable	–	–	–	–	(6,616)	(6,616)
Recoverable expenses	4,500	–	2,186	–	5,019	11,705
2007						
Interest receivable	4,794	–	–	–	2,438	7,232
Interest payable	(1,796)	(73)	–	(614)	(11,744)	(14,227)
Fees and commissions receivable	833	–	475	–	332	1,640
Fees and commissions payable	–	(7,864)	(3,644)	–	(9,322)	(20,830)
Rent payable	–	–	–	–	(7,737)	(7,737)
Recoverable expenses	3,105	–	–	–	3,980	7,085

Fees and commissions receivable/payable relate to transactions where the Group has worked in collaboration with related parties.

Company

Amounts receivable from related parties of the Company are as follows:

	2008		2007	
At 31 March	Loans and Advances £'000	Other Assets £'000	Loans and Advances £'000	Other Assets £'000
Amounts due from parent companies	45,833	64	46,364	246
Amounts due from subsidiary undertakings	135,661	1,943	142,015	6,970
Amounts due from associated undertakings	–	10,548	–	–
Amounts due from other related parties	3,136	8,094	43,538	10,537

Amounts receivable include loans to related parties and amounts recoverable from related parties in respect of expenses incurred on their behalf and services provided. Loans are made in the ordinary course of business and on substantially the same terms as comparable transactions with third parties.

Notes to the Financial Statements

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31. Transactions with Related Parties (continued)

Amounts payable to related parties of the Company are as follows:

	2008 Deposits £'000	2008 Subordinated Loan Capital £'000	2008 Other Liabilities £'000	2007 Deposits £'000	2007 Subordinated Loan Capital £'000	2007 Other Liabilities £'000
At 31 March						
Amounts due to parent companies	21,414	–	538	55,844	–	1,513
Amounts due to subsidiary undertakings						
– subordinated	–	102,250	–	–	87,315	–
– other	721,907	–	2,568	615,051	–	2,110
Amounts due to joint ventures	10,963	–	–	8,430	–	–
Amounts due to associated undertakings	–	–	2,941	–	–	–
Amounts due to pension funds	2,247	–	10	20,248	–	11
Amounts due to other related parties						
– subordinated	–	137,122	–	–	137,475	–
– other	274,596	–	2,947	27,489	–	5,622

Amounts payable consist of deposits taken and bank account balances held in the ordinary course of business and on substantially the same terms as comparable transactions with third parties. £239,372,000 (2007: £224,790,000) relates to amounts loaned to the Company on a subordinated basis, the terms of which are set out in note 22.

Guarantees made on behalf of and received from related parties of the Company are as follows:

At 31 March	2008 £'000	2007 £'000
Guarantees made on behalf of subsidiary undertakings	835,129	713,139
Guarantees received from other related parties	153,283	69,464

The Company has guaranteed £119,305,000 (2007: £101,877,000) of perpetual floating rate subordinated notes and £715,824,000 (2007: £611,262,000) of medium term notes issued by Rothschilds Continuation Finance PLC. The issue proceeds have been placed on deposit with the Company on terms similar to those of the notes issued.

The Company has received guarantees from a fellow subsidiary of Rothschild Concordia SAS in respect of certain customer loans.

Other transactions with related parties of the Company are as follows:

The Company has entered into a lease agreement with a subsidiary undertaking for the rental of office space. The lease agreement expires in 2018 and is on normal commercial terms.

31. Transactions with Related Parties (continued)

Amounts recognised in the income statement of the Company in respect of related party transactions are as follows:

	Parent Companies £'000	Subsidiary Undertakings £'000	Joint Ventures £'000	Associated Undertakings £'000	Pension Funds £'000	Other Related Parties £'000	Total £'000
2008							
Interest receivable	3,844	8,822	–	–	–	4,916	17,582
Interest payable	(3,040)	(39,867)	(517)	–	(267)	(21,944)	(65,635)
Fees and commissions receivable	–	33	–	–	–	120	153
Fees and commissions payable	–	–	(16,150)	(7,001)	–	(2,786)	(25,937)
Rent payable	–	–	–	–	–	(6,616)	(6,616)
Recoverable expenses	4,500	553	–	2,186	–	5,019	12,258
2007							
Interest receivable	42	7,901	–	–	–	2,007	9,950
Interest payable	(1,519)	(29,798)	(147)	–	(614)	(10,696)	(42,774)
Fees and commissions receivable	–	–	475	–	–	88	563
Fees and commissions payable	–	(828)	(15,727)	(3,644)	–	(9,309)	(29,508)
Rent payable	–	–	–	–	–	(7,737)	(7,737)
Recoverable expenses	3,105	619	–	–	–	3,980	7,704

Fees and commissions receivable/payable relate to transactions where the Company has worked in collaboration with other group companies.

32. Minority Interests

Group	Note	2008 £'000	2007 £'000
At 1 April		**545**	**451**
Profit attributable to minority interests		799	94
Acquisition of subsidiary undertaking	34	490	–
Dividends		(37)	–
At 31 March		**1,797**	**545**

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33. Reconciliation of Movements in Shareholders' Equity

Group	Note	Share Capital £'000	Share Premium Account £'000	Retained Earnings £'000	Translation Reserve £'000	Available-For-Sale Reserve £'000	Hedging Reserve £'000	Total £'000
At 1 April 2007		**50,000**	**–**	**243,096**	**59**	**(529)**	**(1,384)**	**291,242**
Ordinary share capital issued	31	5,155	97,936	–	–	–	–	103,091
Profit for the financial year		–	–	25,020	–	–	–	25,020
Minority interest		–	–	(799)	–	–	–	(799)
Shareholders' dividends		–	–	(17,500)	–	–	–	(17,500)
Actuarial gains on defined benefit pension obligations		–	–	9,410	–	–	–	9,410
Effect of change in corporation tax rate on deferred tax relating to items reflected in equity		–	–	(588)	–	124	(16)	(480)
Gains/(losses) from changes in fair value		–	–	–	–	(94,950)	830	(94,120)
Losses transferred to income on disposal and impairment		–	–	–	–	25,549	–	25,549
Exchange differences on translation of foreign operations		–	–	–	4,316	–	–	4,316
At 31 March 2008		**55,155**	**97,936**	**258,639**	**4,375**	**(69,806)**	**(570)**	**345,729**
At 1 April 2006		**50,000**	**–**	**239,252**	**419**	**3,888**	**(217)**	**293,342**
Profit for the financial year		–	–	63,096	–	–	–	63,096
Minority interest		–	–	(94)	–	–	–	(94)
Shareholders' dividends		–	–	(57,500)	–	–	–	(57,500)
Actuarial losses on defined benefit pension obligations		–	–	(1,658)	–	–	–	(1,658)
Losses from changes in fair value		–	–	–	–	(3,617)	(1,024)	(4,641)
Gains transferred to income on disposal and impairment		–	–	–	–	(725)	(143)	(868)
Exchange differences on translation of foreign operations		–	–	–	(360)	–	–	(360)
Disposal of subsidiary undertaking		–	–	–	–	(75)	–	(75)
At 31 March 2007		**50,000**	**–**	**243,096**	**59**	**(529)**	**(1,384)**	**291,242**

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33. Reconciliation of Movements in Shareholders' Equity (continued)

Company	Note	Share Capital £'000	Share Premium Account £'000	Retained Earnings £'000	Available-For-Sale Reserve £'000	Hedging Reserve £'000	Total £'000
At 1 April 2007		**50,000**	**–**	**214,592**	**(2,036)**	**(1,384)**	**261,172**
Ordinary share capital issued	31	5,155	97,936	–	–	–	103,091
Profit for the financial year		–	–	20,074	–	–	20,074
Shareholders' dividends		–	–	(17,500)	–	–	(17,500)
Actuarial gains on defined benefit pension funds		–	–	9,410	–	–	9,410
Effect of change in corporation tax rate on deferred tax relating to items reflected in equity		–	–	(594)	78	(16)	(532)
Gains/(losses) from changes in fair value		–	–	–	(94,824)	830	(93,994)
Losses transferred to income on disposal and impairment		–	–	–	25,549	–	25,549
At 31 March 2008		**55,155**	**97,936**	**225,982**	**(71,233)**	**(570)**	**307,270**
At 1 April 2006		**50,000**	**–**	**148,408**	**2,359**	**(217)**	**200,550**
Profit for the financial year		–	–	126,355	–	–	126,355
Shareholders" dividends		–	–	(57,500)	–	–	(57,500)
Actuarial losses on defined benefit pension funds		–	–	(2,671)	–	–	(2,671)
Losses from changes in fair value		–	–	–	(3,670)	(1,024)	(4,694)
Gains transferred to income on disposal and impairment		–	–	–	(725)	(143)	(868)
At 31 March 2007		**50,000**	**–**	**214,592**	**(2,036)**	**(1,384)**	**261,172**

Reserves consist of the following (all net of taxes):

Available-for-sale reserve – cumulative net unrealised gains/(losses) on fair value changes of available-for-sale investments until the investment is derecognised.

Translation reserve – net gains/(losses) arising from the translation of the financial statements of foreign operations.

Hedging reserve – cumulative change in fair value of the effective portion of derivative instruments designated as cashflow hedges.

Share capital

	2008	2007
Authorised	199,900,000	50,000,000
Allotted, called up and fully paid ordinary shares of £1 each	55,154,551	50,000,000

Notes to the Financial Statements

(forming part of the Financial Statements)

34. Principal Subsidiary Undertakings

The principal subsidiary undertakings of the Company are detailed below. All the principal subsidiary undertakings are registered in England and Wales except where otherwise indicated. The Company's remaining subsidiary undertakings are not material and accordingly no disclosure has been made in respect of these entities.

	Percentage held
Five Arrows Finance Limited (Investment holding company)	100
Five Arrows Leasing Group Limited (Lease portfolio management)	100
Five Arrows Leasing Limited (Asset finance)	100
State Securities plc (Asset finance)	97.64
Specialist Fleet Services Finance Limited (Contract hire and maintenance)	100
Rothschilds Continuation Finance PLC (Finance company)	100
Lanebridge Holdings Limited (Investment holding company)	51
Lanebridge Investment Management Limited (Property investment management)	51
Mist Two Limited (Investment holding company)	100
New Court Property Services Limited (Property investment company)	100

During the year ended 31 March 2008, the Company acquired a 51.0 per cent interest in Lanebridge Holdings Limited for cash consideration of £510,000. Lanebridge Holdings Limited acquired the entire share capital of Lanebridge Investment Management Limited for cash consideration of £10,000,000. The Group acquired from fellow subsidiaries of Rothschild Concordia SAS the entire issued share capital of Mist Two Limited for a cash consideration of £1,000 and the entire share capital of New Court Property Services Limited for a cash consideration of £1.

Since 31 March 2008, the Group has disposed of its investment in Five Arrows Commercial Finance Limited, a wholly-owned subsidiary undertaking engaged in invoice discounting. The disposal will not have a material effect on the Group's results.

The historical cost of the investments in subsidiary undertakings was £35,226,000 (2007: £34,716,000).

34. Principal Subsidiary Undertakings (continued)

The acquisition of Lanebridge Holdings Limited, Lanebridge Investment Management Limited, Mist Two Limited and New Court Property Services Limited had the following effect on the Group's assets and liabilities:

	Total £'000
Loans and advances to banks	1,000
Loans and advances to customers	36,666
Debt and equity securities	19,734
Property, plant and equipment	26,786
Deferred tax assets	2,448
Other assets	2,178
Deposits by banks	(46,023)
Due to customers	(17,425)
Other liabilities	(16,790)
Minority interest	(490)
Net assets acquired	**8,084**
Goodwill	9,786
Negative goodwill	(7,309)
Total purchase consideration	**10,561**
Cash outflow on acquisition	**10,561**

35. Discontinued Operations

On 31 March 2007, the Company entered into an agreement to sell Rothschild Bank International Limited, its wholly-owned subsidiary undertaking, to fellow subsidiaries of Rothschild Concordia SAS. Rothschild Bank International Limited has been classified as a discontinued operation in accordance with IFRS 5. The results of the discontinued operation for the year ended 31 March 2007, and the gain on disposal of the investment, were as follows:

	2007 £'000
Revenues	14,263
Operating expenses	(7,130)
Profit before tax of discontinued operations	**7,133**
Income tax expense	(1,179)
Profit after tax of discontinued operations	**5,954**
Gain on disposal of discontinued operations	75
Profit for the year from discontinued operations	**6,029**

Notes to the Financial Statements

(forming part of the Financial Statements)

35. Discontinued Operations (continued)

Cash flows from discontinued operations included in the consolidated cash flow statement for the year ended 31 March 2007 were:

	2007 £'000
Net cash flow from operating activities	179,850
Net cash flow from investing activities	(4,263)
Net cash flow from financing activities	(2,000)
	173,587

36. Parent Undertaking and Ultimate Holding Company

The largest group in which the results of the Company are consolidated is that headed by Rothschild Concordia SAS, incorporated in France. The smallest group in which they are consolidated is that headed by Rothschilds Continuation Limited, registered in England and Wales. The consolidated financial statements of this group are available to the public and may be obtained from Companies House.

Until 20 November 2007, the Company's ultimate parent company was Concordia BV, a company incorporated in The Netherlands. On 20 November 2007 Paris Orléans SA, a company incorporated in France, became the Company's ultimate parent company, and on 22 January 2008 Rothschild Concordia SAS became the Company's ultimate parent company. Rothschild Concordia SAS, Paris Orléans SA and Concordia BV are controlled by the Rothschild family and their interests.

37. Remuneration of Directors

	2008 £'000	2007 £'000
Directors' emoluments	23,087	20,988
Amounts receivable under long term profit share schemes	1,781	6,227
	24,868	**27,215**
Pension contributions to money purchase schemes	84	2,053
Compensation for loss of office	389	–
	25,341	**29,268**

The emoluments of the highest paid director were £6,763,000 (2007: £7,831,000).

	2008	2007
Retirement benefits are accruing to the following number of directors under		
Money purchase schemes	4	4
Defined benefit schemes	2	3

Independent Non-Executive Directors

Independent Non-Executive Directors

Brief biographical details of the Independent Non-Executive Directors are as follows:

Lord George

Lord George was Governor of the Bank of England from 1993 to 2003, having joined the Bank in 1962. He is a Non-Executive Director of Grosvenor Group Holdings Limited, Nestlé SA and the Bank for International Settlements.

Lord Guthrie

Lord Guthrie was Chief of the Defence Staff from 1997 to 2001, having previously been Chief of the General Staff of the UK army from 1994 to 1997. He is a Non-Executive Director of Peter Hambro Mining PLC and Colt Defense LLC.

Sir Graham Hearne

Sir Graham Hearne is Non-Executive Chairman of Braemar Shipping Services plc, Stratic Energy Corporation and Catlin Group Limited. He was previously Chairman of Enterprise Oil Plc (1991 to 2002) and Chief Executive (1984 to 1991). He was appointed to the Board of N M Rothschild & Sons Limited in September 1970, becoming Non-Executive in July 1977.

Peter Smith

Peter Smith is Chairman of Savills plc and Templeton Emerging Markets Investment Trust plc, a Non-Executive Director of Associated British Foods plc, and a Non-Executive Director and Deputy Chairman of the Equitable Life Assurance Society. He was Senior Partner of PricewaterhouseCoopers (and previously Coopers & Lybrand) from 1994 to 2000.

Sir Clive Whitmore

Sir Clive Whitmore was Permanent Secretary of the Ministry of Defence from 1983 to 1988 and of the Home Office from 1988 to 1994.

Group Directory

Australia

Rothschild Australia Limited
Level 16, 1 O'Connell Street
Sydney, NSW 2000, Australia
Telephone +61 (0)2 9323 2000
Facsimile +61 (0)2 9323 2040

Level 21, 120 Collins Street
Melbourne, Victoria 3000, Australia
Telephone +61 (0)3 9656 4600
Facsimile +61 (0)3 9656 4950

Brazil

N M Rothschild & Sons (Brasil) Ltda
Av. Brigadeiro Faria Lima 2055
18th Floor, Jardim Paulistano
01451-000 São Paulo, Brazil
Telephone +55 (0)11 3039 5828
Facsimile +55 (0)11 3039 5826

British Virgin Islands

Rothschild Trust BVI Limited
Palm Grove House, PO Box 438
Road Town, Tortola
British Virgin Islands
Telephone +1 284 494 7106
Facsimile +1 284 494 7105

Canada

N M Rothschild & Sons Canada Limited
1002, rue Sherbrooke Ouest
Bureau 2300, Montréal, Québec
Canada H3A 3L6
Telephone +1 514 840 1016
Facsimile +1 514 840 1015

Brookfield Place
TD Canada Trust Tower
161 Bay Street, Suite 3150
PO Box 206, Toronto
Ontario, Canada M5J 2S1
Telephone +1 416 369 9600
Facsimile +1 416 864 1261

Cayman Islands

Rothschild Trust Cayman Limited
PO Box 10129 APO
5th Floor Citrus Grove, George Town
Grand Cayman KY1-1002
Cayman Islands, British West Indies
Telephone +1 345 949 3022
Facsimile +1 345 949 3177

Channel Islands

Rothschild Bank International Limited
St. Julian's Court, St. Julian's Avenue
St. Peter Port, Guernsey
Channel Islands GY1 3BP
Telephone +44 (0)1481 713713
Facsimile +44 (0)1481 727705

Rothschild Trust Guernsey Limited
St. Peter's House, Le Bordage
St. Peter Port, Guernsey
Channel Islands GY1 6AX
Telephone +44 (0)1481 707800
Facsimile +44 (0)1481 712686

Rothschild Bank (C.I.) Limited
St. Julian's Court, St. Julian's Avenue
St. Peter Port, Guernsey
Channel Islands GY1 3UA
Telephone +44 (0)1481 710521
Facsimile +44 (0)1481 711272

Chile

BICE Chileconsult Asesorias Financieras S.A.
Teatinos 220, Piso 5, Santiago, Chile
Telephone +56 (0)2 696 3576
Facsimile +56 (0)2 696 5825

China

N M Rothschild China Holding AG
Beijing Representative Office
Room 912A
Winland International
Finance Center, 7 Finance Street
Xicheng District, Beijing 100034
People's Republic of China
Telephone +86 10 6655 5660
Facsimile +86 10 6655 5880

Shanghai Representative Office
Suite 3208, Tower 2, Plaza 66
1366 Nan Jing Xi Lu Road
Shanghai 200040
People's Republic of China
Telephone +86 21 6288 1528
Facsimile +86 21 6288 1517

N M Rothschild & Sons (Hong Kong) Limited
16/F Alexandra House
16-20 Chater Road
Central, Hong Kong
People's Republic of China
Telephone +852 2525 5333
Facsimile +852 2868 1680
Telex 74628

Group Directory

France

Paris Orléans
23 bis avenue de Messine
75008 Paris, France
Telephone *+33 (0)1 5377 6510*
Facsimile *+33 (0)1 4563 8528*

Rothschild & Cie Banque
29 avenue de Messine
75008 Paris, France
Telephone *+33 (0)1 4074 4074*
Facsimile *+33 (0)1 4074 9847*

Rothschild & Cie
23 bis avenue de Messine
75008 Paris, France
Telephone *+33 (0)1 4074 4074*
Facsimile *+33 (0)1 4074 9847*

Rothschild & Cie Gestion
29 avenue de Messine
75008 Paris, France
Telephone *+33 (0)1 4074 4074*
Facsimile *+33 (0)1 4074 4969*

Germany

Rothschild GmbH
Börsenplatz 13-15, 60313
Frankfurt am Main, Germany
Telephone *+49 (0)69 299 8840*
Facsimile *+49 (0)69 287 820*

Rothschild Vermögensverwaltungs-GmbH
Ulmenstraße 18, 60325
Frankfurt am Main, Germany
Telephone *+49 (0)69 4080 2600*
Facsimile *+49 (0)69 4080 2655*

India

N M Rothschild & Sons (India) Private Limited
407-408, Level 4, Ceejay House
Dr Annie Besant Road, Worli
Mumbai 400 018, India
Telephone *+91 (0)22 4081 7000*
Facsimile *+91 (0)22 4081 7001*

Indonesia

PT Rothschild Indonesia
Jakarta Stock Exchange Building
Tower 1, 15th Floor
Jl. Jend. Sudirman Kav. 52-53
Jakarta 12190, Indonesia
Telephone *+62 (0)21 515 3588*
Facsimile *+62 (0)21 515 3589*

Italy

Rothschild SpA
Via Santa Radegonda 8
20121 Milan, Italy
Telephone *+39 02 7244 31*
Facsimile *+39 02 7244 3310*

Via S. Nicola da Tolentino 1/5
00187 Rome, Italy
Telephone *+39 06 4217 01*
Facsimile *+39 06 4217 0252*

Japan

Rothschild Bank AG
Tokyo Representative Office

Rothschild Japan KK
Suite 515, 5th Floor, Main Building
Imperial Hotel, 1-1-1 Uchisaiwai-cho
Chiyoda-ku, Tokyo 100-8558, Japan
Telephone *+81 (0)3 3519 8835*
Facsimile *+81 (0)3 3519 8838*

Malaysia

Rothschild Malaysia Sdn Bhd
Letter Box No. 42, 29th Floor
UBN Tower, 10, Jalan P. Ramlee
50250 Kuala Lumpur, Malaysia
Telephone *+603 2687 0966*
Facsimile *+603 2070 1001*

México

N M Rothschild & Sons (México) SA de CV
Campos Eliseos 345-8° piso, Polanco
CP 11550 México DF, México
Telephone *+52 55 5327 1450*
Facsimile *+52 55 5327 1485*

Netherlands

Rothschild Europe BV
Prins Bernhardplein 200
1097 JB Amsterdam, The Netherlands
Telephone *+31 (0)20 422 2516*
Facsimile *+31 (0)20 422 2516*

Poland

RCF Polska sp. z. o.o.
Warsaw Financial Centre
Emilii Plater 53
00-113 Warsaw, Poland
Telephone *+48 22 549 6400*
Facsimile *+48 22 549 6402*

Portugal

Rothschild Portugal - Serviços Financeiros, Limitada
Calçada do Marquês de Abrantes
40-1° Esq., 1200-719 Lisbon, Portugal
Telephone *+351 (0)21 397 5378*
Facsimile *+351 (0)21 397 5476*

Group Directory

Russia

RCF (Russia) BV

Novinsky Passazh (8th Floor)
31 Novinsky Boulevard
123242, Moscow, Russia
Telephone *+7 495 775 8221*
Facsimile *+7 495 775 8222*

Singapore

N M Rothschild & Sons (Singapore) Limited

One Raffles Quay, North Tower
1 Raffles Quay, #10-02
Singapore 048583
Telephone *+65 6535 8311*
Facsimile *+65 6535 8326*

Rothschild Trust (Singapore) Limited

One Raffles Quay, North Tower
1 Raffles Quay, #10-02
Singapore 048583
Telephone *+65 6532 0866*
Facsimile *+65 6532 4166*

RBZ (Representative) Pte. Limited

One Raffles Quay, North Tower
1 Raffles Quay, #10-02
Singapore 048583
Telephone *+65 6532 0866*
Facsimile *+65 6532 4166*

South Africa

N M Rothschild & Sons (South Africa) (Pty) Limited

1st Floor, Kagiso House, 16 Fricker Road
Illovo 2196, South Africa
Telephone *+27 (0)11 215 6800*
Facsimile *+27 (0)11 215 6826*

Spain

Rothschild España SA

Paseo de la Castellana, 21
4º Planta, 28046 Madrid, Spain
Telephone *+34 91 702 2600*
Facsimile *+34 91 702 2531*

Avigunda Diagonal, 442-3º1
08007 Barcelona, Spain
Telephone *+34 93 254 7503*
Facsimile *+34 93 254 7504*

Rothschild Gestión AVSA

Paseo de la Castellana, 21
3º Planta, 28046 Madrid, Spain
Telephone *+34 91 310 7570*
Facsimile *+34 91 319 4455*

Paseo de Gracia 60, 2D
08007 Barcelona, Spain
Telephone *+34 93 467 5751*
Facsimile *+34 93 467 5763*

Sweden

N M Rothschild & Sons Limited

Strandvägen 7A, 114 56 Stockholm
Sweden
Telephone *+46 (0)8 586 33590*
Facsimile *+46 (0)8 660 9791*

Switzerland

Rothschild Holding AG
Rothschild Bank AG

Zollikerstrasse 181
8034 Zurich, Switzerland
Telephone *+41 (0)44 384 7111*
Facsimile *+41 (0)44 384 7222*

Rothschild Trust (Switzerland) Limited

Zollikerstrasse 181
8034 Zurich, Switzerland
Telephone *+41 (0)44 384 7111*
Facsimile *+41 (0)44 384 7201*

RTS Geneva SA

21 rue du Rhône
1204 Geneva, Switzerland
Telephone *+41 (0)22 818 5943*
Facsimile *+41 (0)22 818 5902*

Rothschilds Continuation Holdings AG

Baarerstrasse 95, Postfach 735
6301 Zug, Switzerland
Telephone *+41 (0)41 720 0680*
Facsimile *+41 (0)41 720 0683*

Equitas SA

21 rue du Rhône
1204 Geneva, Switzerland
Telephone *+41 (0)22 818 5900*
Facsimile *+41 (0)22 818 5901*

Turkey

Rothschild Kurumsal Finansman Hizmetleri Limited

Akmerkez Rezidans No. 14 D 2
Akmerkez İş Merkezi Yanı
Nispetiye Caddesi, 34340 Etiler
İstanbul, Turkey
Telephone *+90 212 371 0800*
Facsimile *+90 212 371 0809*

Group Directory

United Arab Emirates

Rothschild (Middle East) Limited

Dubai International Financial Centre
Gate Precinct Building, 76, The Edge
Level 7, PO Box 506570
Dubai, United Arab Emirates
Telephone +971 4 428 4300
Facsimile +971 4 365 3183

Rothschild Europe

Al Bateen Tower, 8th Floor, C801
Al Bateen Area, Al Bainunah Street
Abu Dhabi W35, United Arab Emirates
Telephone +971 2 403 0700
Facsimile +971 2 667 9602

United Kingdom

N M Rothschild & Sons Limited

New Court, St. Swithin's Lane
London EC4P 4DU, UK
Telephone +44 (0)20 7280 5000
Facsimile +44 (0)20 7929 1643
Telex 888031

82 King Street
Manchester M2 4WQ, UK
Telephone +44 (0)161 827 3800
Facsimile +44 (0)161 833 0293
Telex 667517

67 Temple Row
Birmingham B2 5LS, UK
Telephone +44 (0)121 600 5252
Facsimile +44 (0)121 643 7207

1 Park Row
Leeds LS1 5NR, UK
Telephone +44 (0)113 200 1900
Facsimile +44 (0)113 243 3039

Rothschild Trust Corporation Limited

New Court, St. Swithin's Lane
London EC4P 4DU, UK
Telephone +44 (0)20 7280 5000
Facsimile +44 (0)20 7929 5239
Telex 888031

Rothschild Private Management Limited

1 King William Street
London EC4N 7AR, UK
Telephone +44 (0)20 7280 5000
Facsimile +44 (0)20 7280 1567

Five Arrows Leasing Group Limited

Heron House, 5 Heron Square
Richmond-upon-Thames
Surrey TW9 1EL, UK
Telephone +44 (0)20 8334 3900
Facsimile +44 (0)20 8332 1636

United States

Rothschild North America Inc.
Rothschild Inc.
Rothschild Asset Management Inc.

1251 Avenue of the Americas
51st Floor, New York, NY 10020, USA
Telephone +1 (0)212 403 3500
Facsimile +1 (0)212 403 3501

Rothschild Inc.

1101 Connecticut Avenue NW
Suite 700, Washington DC 20036, USA
Telephone +1 (0)202 862 1660
Facsimile +1 (0)202 862 1699

Zimbabwe

MBCA Bank Limited

14th Floor, Old Mutual Centre
Third Street, Harare, Zimbabwe
Telephone +263 (0)4 701636
Facsimile +263 (0)4 708005