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N M Rothschild & Sons Limited

Annual Report 2012

Contents

World presence

The Rothschild banking group has 57 offices in 45 countries and employs over 2,800 people around the world Through its network of subsidiaries and affiliates, the Group provides global financial advisory, banking and treasury, merchant banking, and wealth management services to governments, corporations and individuals worldwide

North America

Calgary
Mexico City
Montréal
New York
Toronto
Washington

Europe and The Middle East

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

South America

Santiago
São Paulo

Africa

Harare
Johannesburg

Asia Pacific

Auckland
Beijing
Hanoi
Hong Kong
Jakarta
Kuala Lumpur
Manila
Melbourne
Mumbai
New Delhi
Seoul
Shanghai
Singapore
Sydney
Tokyo
Wellington

Directors

Chairman
David de Rothschild

Deputy Chairman
Anthony Alt

Executive Directors
Andrew Didham
Anthony Salz

Non-Executive Directors
Daniel Bouton
Eric de Rothschild
Peter Smith
Mark Evans

Chairman's statement

Last year, I commented that it was very difficult to state with any degree of certainty that the economic crisis is behind us. Unfortunately I was correct. The encouraging signs that were seen in the first half of 2011 were soon replaced with further concerns over the impact of the eurozone troubles on the global economy. These concerns have continued into 2012 and the economic outlook, for the eurozone in particular, remains uncertain.

While the economic climate has impacted the results of the Group we continue to perform well and have been less affected than many in our sector. We continue to improve our market position, which with the continued maintenance of high levels of liquidity and capital strength stands us in good stead for the future.

In early April 2012 I announced that Paris Orléans, the holding company of the Rothschild group, was reorganising and simplifying its structure. The reorganisation was approved by Paris Orléans' shareholders in June. As a result Paris Orléans acquired all the shares in the Paris business of Rothschild & Cie Banque not currently owned and brought under its ownership substantially all the shares in Rothschilds Continuation Holdings AG (N M Rothschild & Sons Limited's ("NMR") Swiss parent company). At the same time, Paris Orléans converted into a French limited partnership which ensures the commitment and control of the Rothschild family over the long term, both cornerstones of the Group's culture and competitive positioning.

To achieve this significant change to our structure in the current climate highlights the degree of support that exists from both the Rothschild family and the non-family shareholders. These changes provide a simplified organisational structure that will foster increased operational efficiency in the Group's businesses. They also provide a significantly enhanced group regulatory capital position in the face of stringent Basel III regulatory requirements.

These changes provide a strong base for the Group to move forward. This includes the NMR group which, in 2011, continued to develop its fund management activities through the acquisition of Elgin Capital, an established CLO manager, bringing the amount of assets under the Group's management to some £2 billion. The Banking business continues to build the Five Arrows Leasing business which unfailingly delivers a robust performance with good margin income and continuing low levels of impairment. The commercial loan business, primarily in commercial property and leveraged finance sectors, continues to contract as part of our planned and long term withdrawal from this part of the Banking business.

Our Global Financial Advisory business has not been immune from the world's economic troubles but continues to prove that its model is the right one of providing impartial, expert advice to corporations, governments, institutions and individuals. We consistently deliver the highest quality advice with discretion, integrity and insight in the areas of M&A and strategic advisory along with financing advisory. This formula continues to win over clients – globally in 2011 we ranked sixth by number of completed deals (up from seventh in 2010) and achieved top ten positions in most of our key markets.

The confidence we have always had in the long term future of

our business was reflected in our decision in 2007 to develop our new London head office building. The new building at "New Court", which has become something of a landmark in the City of London, was occupied in mid 2011 on time and on budget. It is providing much improved client meeting facilities and working conditions for our staff.

I have to report with great sadness that my cousin Leopold de Rothschild passed away in April this year. Leo was a wonderful, generous man who contributed to NMR and to other organisations in so many ways, including sitting as a director of the Bank of England. His life spans an era of extraordinary change at NMR, he was one of very few people to have worked in three incarnations of New Court. Leo was heavily involved in establishing our South American offices as well as bringing together a number of continental firms with links to Rothschild. He was always very committed to the welfare of our staff, and his dedication to our pensioners over the years has been unfailing. This is his diamond jubilee year at NMR.

Finally, I should like to thank my fellow directors and all our staff for their hard work and professionalism over the last year in what are testing times.

David de Rothschild
24 July 2012

Business review

Financial review

N M Rothschild & Sons Limited has been a leading name in the London financial markets since 1798, providing a comprehensive range of advisory services to its clients alongside debt fund management and specialised lending. The Company is the largest entity within the Rothschild banking group, which has a presence in 45 countries around the world and continues to be controlled by the Rothschild family via Paris Orléans, the French listed holding company

The principal subsidiaries consolidated by the N M Rothschild & Sons Limited Group are Rothschild Europe BV and Rothschild Australia Limited, which provide financial advisory services overseas, and Five Arrows Finance, a UK-based asset financing group

Results overview

The latter part of 2011 was again an extremely turbulent time as markets focussed on the troubles in the eurozone In the light of market conditions, the Group s profit after tax for the year of £24 6 million was satisfactory

Income

Total fee and commission income earned from clients fell by 8% to £355 0 million as would be expected given the reduction in global deal activity M&A fees were marginally up on the year at £259 8 million (2011 £254 1 million) However other financial advisory fees which include fees from debt advisory and restructuring, and equity advisory, declined to £75 4 million (2011 £109 7 million) The revenue mix of the Global Financial Advisory business continues to be well diversified by sector, with no dependence on a small number of engagements or clients.

Net interest income decreased marginally to £17 4 million reflecting the continued reduction in legacy commercial lending

Other operating income, which includes operating lease income, rental income and dividend income increased by 20% to £19 9 million largely as a result of gains on the disposal of available-for-sale securities

Impairment losses of £12 8 million were up compared to the prior year, as would be expected given the market conditions in the latter part of the year

Expenses

Total operating expenses fell £23 6 million (7%) to £320 3 million Staff costs account for £251 9 million (79%) of total operating expenses (2011 £274 8 million or 80%) and include profit share payments which have fallen reflecting the performance of the Group s businesses. This continues to provide a significant degree of flexibility in the cost base Administrative expenses were marginally down on the prior year which reflects the on-going focus on cost control

Tax

The Group's tax charge for the year was £10 3 million, compared with a charge of £15 6 million in the prior year

Balance sheet

Total assets of the Group were £2,285 0 million at 31 March 2012 a reduction of £539 6 million (19%) compared to the prior year end This is due to further reductions in the legacy commercial loan book, following the strategic decision to reduce commercial lending exposures Alongside this, the Group has repaid €350 million of MTN's and part of the first Rothschild Reserve term retail deposit offering

Total shareholders' equity attributable to ordinary shareholders reduced by £68 5 million (16%), to £353 6 million, largely due to actuarial losses on defined benefit pension schemes through reserves of £49 9 million (after tax) and dividends paid of £18 0 million In common with most defined benefit pension schemes, the increased deficit was driven by falling gilt yields A reconciliation of movements in total shareholders' equity is provided in the consolidated accounts on page 27

Business review (continued)

Asset quality, funding and liquidity

Summarised balance sheet

	2012 £m	2011 £m
Assets		
Prime liquid assets	686	852
Other liquid assets	222	552
Total liquid assets	908	1,404
Customer loans	818	881
Other assets	559	540
Total assets	**2,285**	**2,825**
Liabilities		
Bank deposits	178	176
Customer deposits	1,086	1,235
Debt securities in issue	142	461
Other liabilities	382	388
Total liabilities	**1 788**	**2 260**
Equity	497	565
Total equity and liabilities	**2,285**	**2,825**

During the year total loans and advances to customers reduced by 7% to £818 million The portfolio of loan assets, which is secured on a wide range of collateral types and well diversified by sector, includes commercial property finance leveraged finance natural resources, niche asset finance and private client lending The Banking team continues to perform a rigorous process of credit analysis for each individual exposure at inception and in subsequent monitoring Impaired loans at 31 March 2012 represented 1 8% of loans and advances (2011 1 1%) with provision coverage of 48% (2011 68%) The Group's exposure to credit risk is further analysed in note 2 2 to the financial statements

The Group continues to employ a conservative approach to liquidity management. Around 40% of total assets are held in liquid form, with the majority of this held with the Bank of England or in UK Government Securities The Group has no exposure to the weaker Eurozone governments

Funding is focused on the highly successful Rothschild Reserve retail deposit programme augmented by relationship deposits from corporate, institutional and other depositors to ensure sufficient diversity Customer deposits were £1,086 million at 31 March 2012, representing 48% of total equity and liabilities The Group's loans to customers are entirely funded by customer deposits

Regulatory capital and liquidity

Since the onset of the crisis in financial markets in 2007, the Group has continued to focus on conservatively managing its liquidity and capital The risk asset ratio was 20 3% at 31 March 2012 (31 March 2011 20 7%) and the overall leverage ratio of assets (excluding liquid assets) to equity is only 3 times

The Company is in full compliance with the FSA's requirements Funding and liquidity policies are based on the Basel 3 approach and reflect the Group's low appetite for liquidity risk. The Group remained significantly in surplus to regulatory and internal liquidity guidelines throughout the year

Operating Divisions

Global Financial Advisory*

Overview

Our Global Financial Advisory business provides impartial, expert advice to corporations, governments, institutions and individuals

We deliver the highest quality advice with discretion, integrity and insight in the areas of M&A and strategic advisory, and financing advisory

With approaching 1,000 advisers based in over 40 countries, our scale, reach, intellectual capital and local knowledge enable us to develop relationships and deliver effective solutions to support our clients, wherever their business takes them During the year we have made a number of significant hires at Board level, senior adviser level and across the divisions

Despite the tough business environment and continuing economic uncertainty we have continued to remain resilient and advised on around 500 transactions globally in 2011 with a value totalling over US$400bn

Rothschild's objectivity, its global network, and its commitment to a relationship-driven approach, combine to create value for our clients; building value through stability, integrity, and creativity

Capital structure access to funding and liquidity remain high priorities for our clients in the current environment We continue to strengthen our position across the financing advisory spectrum to support this need

We are uniquely positioned to leverage opportunities in the market with our global network, spread of businesses and reputation for giving robust impartial advice

Our values are at the root of our culture and define our client offering We distinguish ourselves from our competitors in the following respects

- **Focused on clients** - Nothing gets in the way of our impartial advice for each and every client. We sell nothing but the best advice and execution capabilities
- **Expert** - Senior bankers lead every assignment from start to finish We advise on more deals than any other adviser, including many of the most complex and transformational assignments in the world All Rothschild clients benefit from our collective intellectual capital, specialist sector and product expertise and wealth of experience
- **Informed** - We combine global scale with deep local networks With approaching 1 000 advisers on the ground around the world, we are well placed to help clients, wherever their business takes them
- **Long term** - As a family controlled business, we are unconstrained by short-term thinking and quarterly reporting We can take a long-term view to deliver each client's interests
- **Trusted & independent** - We know that long-lasting relationships depend on the quality of our advice, we care about our clients' success as much as they do The scale of our business means that we are not dependent on the outcome of any one transaction We are only as good as our last assignment, this has been true for more than 200 years

**The Global Financial Advisory business is managed on a global basis and hence the commentary refers to the global business However, references to specific deals are only those that have been undertaken by the Company or its subsidiaries*

Business review (continued)

M&A and strategic advisory review of the year

Rothschild provides the highest quality M&A advice and execution expertise

We are adviser of choice to both large and mid-cap corporates, governments, families and individuals worldwide We are also one of the leading advisers to financial sponsors worldwide forming long-term relationships to understand their needs

We have an unparalleled track record, advising on more deals than any other adviser in Europe for the past ten years

We have built this global success through

- Our unbiased, objective advice, free from conflicts and cross-selling
- Our trusted partnerships with clients, using our global perspective and depth of industry expertise to help achieve their long-term objectives
- Our global presence, bringing in-depth insight to complex cross-border transactions across world markets, and superior expertise in domestic markets
- Our integrated global network of industry sector specialists, pooling knowledge from across local markets
- Our extensive experience in bid defences joint ventures and strategic alliances, de-mergers and spin-offs, and fairness opinions

We also have specialists in areas including corporate governance, privatisation programmes, pension funds and board committee advice

Globally in 2011 we ranked sixth by number of completed deals, and achieved top ten positions in most of our key markets.

We held top 5 positions for M&A advice in the consumer products, hotels & leisure, infrastructure, property, media telecoms transport and utilities sectors

Rothschild M&A 2011 league table rankings by geography

Country/Region	Rank by number	Rank by value
Worldwide	6	11
Worldwide Cross Border	6	9
Europe	1	6
UK	1	4
France	1	2
Germany	2	6
Italy	3	20
Spain	10	13
Central & Eastern Europe	2	6
United States	14	12
Latin America	8	12
India	1	3
Asia (ex. Japan)	7	9
Australia	9	11
Middle East & Africa	5	16

Completed deals
Source: Thomson Reuters

Business review (continued)

During the financial year we advised on some of the largest and highest profile deals of the year including

Cairn Energy (2011)

- US$6.0bn disposal of a 40% stake in Cairn India to Vedanta Resources

Extract Resources (2012)

- Advisor in relation to A$2.2bn takeover offer by CGNPC-URC and CADFund

Iceland management and co-investors (2012)

- £1.55bn acquisition of Iceland Foods

EDP (Current)

- €2.7bn sale of a 21.35% stake by the Portuguese State & Strategic Partnership with the acquirer, China Three Gorges

Volkswagen (2011)

- €3.7bn public tender offer for all shares outstanding of MAN SE

Polkomtel (2011)

- Disposal of the company to Spartan Capital Holdings for €4.5bn

Anadolu Efes (2012)

- Adviser to Anadolu Efes on the formation of a strategic alliance with SABMiller in Turkey Russia and Central Asia

Rolls-Royce (2011)

- €3.8bn public tender offer for Tognum effected via a JV between Rolls-Royce and Daimler

EQT (2011)

- €1.4bn acquisition of Dometic Group from a consortium of lenders, board directors and employees

Walmart (2011)

- Acquisition of a controlling interest in Massmart for an aggregate consideration of c US$2.5bn

Queensland Government (2011)

- Chair of the Lead Adviser Consortium on A$16bn infrastructure assets sales programme

AREA Property Partners & Delancey (2011)

- Potential acquisition of Minerva PLC for £1.1bn

We also continued to receive industry recognition

The Banker Investment Banking awards (2011)

- Most innovative Investment Bank for M&A

Real Deals Private Equity awards (2012)

- UK Deal of the Year and Grand Prix Deal of the Year
  ISIS/Wiggle

Private Equity News Europe (2011)

- Financial Sponsors Coverage Team of the Year

The Banker Investment Banking awards (2011)

- Most innovative Investment Bank for Growth Companies

Financial News Europe awards (2011)

- European Independent Adviser of the Year

FT & mergermarket European awards (2007-2011)

- Mid-market Financial Adviser of the Year

Business review (continued)

Financing advisory review

Debt advisory and restructuring

Rothschild has the largest and most experienced independent debt advisory and restructuring teams, with breadth and depth of experience, the broadest client base, the widest range of pricing and leverage sources and a proven track record of delivering deals

We have an unsurpassed deal flow and expertise in structuring deals for today's markets

Our debt advisory expertise encompasses all financing markets including banks, bonds, ratings, derivatives and hedging

Our restructuring experience includes lender negotiations, recapitalisations capital raising exchange offers, distressed M&A, in-court and out-of-court transactions and creditor representation

We provide our clients with

- Objective independent, client-focused advice, free from the conflicts of interest faced by balance sheet banks
- Capital structure advice that optimises both terms and sources of debt financings, refinancings and restructuring
- Innovative advice to companies, creditors, governments and private equity houses on financing strategy raising debt and ratings, and hedging strategies
- A creative and resourceful approach, bringing innovative solutions to maximise value and options for our clients

We are in constant dialogue with banks, investors and rating agencies allowing us to understand the real picture

Rothschild has advised on US$850bn of debt advisory and restructuring assignments since January 2009

Rothschild's debt advisory business advised on over 140 transactions across the credit spectrum valued at c US$95bn in 2011

Rothschild ranked No 1 in EMEA and Global restructuring league tables for 2011 and held top 5 positions in the US and Asia & Pacific

EMEA Restructuring		US$bn	No
1	Rothschild	51 7	34
2	Houlihan Lokey	35 5	13
3	Goldman Sachs	26 5	8
4	Blackstone	23 0	8
5	Gleacher & Co	13 8	3
6	Lazard	13 2	13
7	PwC	11 4	6
8	Alvarez & Marshal	9 0	2
9	Moelis & Co	7 8	3
10	Leonardo & Co	6 2	3

Announced deals by value (1 January to 31 December 2011)
Source **Thomson Reuters** January 2012

Global Restructuring		US$bn	No
1	Rothschild	7[illegible]	50
2	Lazard	70 0	49
3	Houlihan Lokey	62 1	35
4	Blackstone	46 8	27
5	Moelis & Co	38 5	22
6	Goldman Sachs	31 2	13
7	Alvarez & Marshal	19 3	9
8	PwC	13 8	9
9	FTI Consulting	9 8	5
10	KPMG	8 8	7

Announced deals by value (1 January to 31 December 2011)
Source **Thomson Reuters** January 2012

Business review (continued)

Our ability to complete complex projects for both corporate clients and state/government organisations was reflected in the following landmark transactions and industry awards

Iceland Foods (2012)

- Debt advice on raising £885m of senior facilities backing management's buyout of Iceland Foods

Alibaba Group Holding Limited (2012)

- US$3.0bn debt financing for the privatisation of Alibaba.com from the Hong Kong Stock Exchange and corporate purposes

Nakheel (2011)

- Restructuring of US$15bn external liabilities and US$7.3bn new money contribution

Minister for Finance of the Republic of Ireland (2011)

- €30bn restructuring of State-owned Anglo Irish Bank
- Financial Adviser

De Beers (2011)

- Debt advice on the signing of a new US$2bn multicurrency Credit Facility

Associated British Ports (2011)

- Debt and derivatives advice on comprehensive refinancing of the group through a £2.4bn secured coporate programme

Pamplona Capital Management (2011)

- Advice to Sponsor on US$2.1bn financial restructuring of KCA Deutag

Yell Group plc

- Debt advice on covenant reset and other amendments to its existing £3.1bn bank facilities

Dubai World

- US$31.8bn financing to Dubai World on liability management

DS Smith Plc (2012)

- Debt advice on new €700m acquisition finance facility to support proposed acquisition of SCA Packaging

APA Group (2011)

- Arrangement of the A$310m non-recourse bank debt as part of the 80% equity sell down in Allgas

Grainger (2011)

- Debt advice on a £840m Forward Start Facility due 2014-2020

Private Equity News Europe (2011)

- Turnaround and Restructuring Adviser of the Year

IFR (2011)

- EMEA Restructuring of the Year Truvo

The Banker (2012)

- Middle East Restructuring of the Year Nakheel

Equity advisory

Rothschild offers independent advice to clients on a wide range of equity capital raising transactions. With teams on the ground in key markets around the world, we have an unparalleled global footprint and deeper resources than any other adviser in this area. Our expertise includes IPOs, secondary offerings, block trades, spin-offs and convertible instruments. We have advised on over 100 transactions in 21 countries with a combined deal value of US$270bn since January 2009, more than any of our competitors

Rothschild is the leading adviser in equity transactions worldwide with equity advisory specialists in London, Paris, Frankfurt, Milan, Moscow, Hong Kong, Sydney and New York.

Our high volume of assignments enables us to gain a detailed understanding of investor behaviour, optimal deal structure, performance of key market participants and the latest market trends. As a result, our teams can provide clients with unique insights into the execution of recent offerings and the track record of bookrunners, and equip clients with the latest deal technology

Our pure advisory business model enables us to focus solely on achieving the best possible result for our clients and minimising their execution risk, providing

- Honest, strategic views of what is achievable in prevailing markets
- Rigorous analysis, support for issuers in negotiations and tactical judgements
- Coordination of bookrunners to maximise value for our clients, bringing discipline and precision to the execution of equity offerings

Business review (continued)

We have advised on some of the world's largest equity capital markets transactions during the past year These include

Porsche SE (2011)
- €5 0bn rights issue
- Financial adviser to Porsche Automobil Holding SE

Royal Bank of Scotland (2011)
- US$1 25bn IPO of Samsonite on the Hong Kong Stock Exchange
- Adviser to Shareholder

NORMA Group (2011)
- €386m IPO of NORMA Group
- Adviser to Company and its shareholders

BC Partners & Cinven (2011)
- €570m Accelerated Book Build
- Adviser to BC Partners & Cinven

Lenzing (2011)
- €620m re IPO on Austrian Stock Exchange
- Adviser to the Company and its Shareholders

Bilfinger Berger (2011)
- £212m IPO of Bilfinger Berger Global Infrastructure Fund

Banking

The Rothschild Banking business is focused on the growth activities of Debt Fund Management, Private Client Lending and Asset Finance As planned, there has been a further reduction in the commercial loan books during the year and whilst impairment levels have increased compared to last year, this reflects a cautious approach in the light of the current uncertain economic outlook.

The commercial loan books are primarily in the Commercial Property and Leveraged Finance sectors The Commercial Property loan portfolio is focused on mid market property companies secured on commercial properties throughout the UK. The Leveraged Finance loan portfolio is senior and mezzanine debt in the larger European leveraged buy-outs

Rothschild's banking activities include the Five Arrows Leasing businesses, which provide a range of specialist asset finance facilities to UK companies. Specific niches include print finance, broadcast, asset based lending and vehicles to local authorities. The understanding of these sectors has resulted in the businesses delivering a robust performance throughout the year, based upon good margin income and continuing low levels of impairment.

Rothschild continues to develop its Debt Fund Management activities. In addition to managing c €300 million of existing senior debt and mezzanine funds during the year the business completed the acquisition of Elgin Capital, an established CLO manager, with over €1 3 billion of senior debt currently under management This acquisition has provided both critical mass and additional expertise to our existing business, creating a platform from which we can launch future debt based funds

In 2009 we launched Rothschild Reserve a deposit-taking business which complements the wealth management activities of the Rothschild Group There have been five highly successful Rothschild Reserve deposit offers to date and further products are planned

Risk Management

The Chief Risk Officer 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 page 20

Credit Risk

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

Details of credit exposures, including risk concentrations, are set out in note 22

Market Risk

Market risk arises as a result of activities in currency, interest rate, debt and equity markets During the year, exposure to market risk has continued to be small in relation to capital, as trading activities have been focused on managing the Group's exposure to interest rate and currency risk. Limits on market risk exposure are set by the Group Assets and Liabilities Committee

Details of market risk exposures are disclosed in note 23

Business review (continued)

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 in accordance with regulatory guidelines on a behaviourally adjusted basis and on a stressed basis The results are monitored against limits which have been approved by the Group Assets and Liabilities Committee

Operational Risk

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

Other Material Risks

Other risks which are, or may be, material arise in the normal conduct of business Such risks, which include concentration risk, pension fund risk and residual risk, are identified and managed as part of the overall risk controls and are taken into account in the Board's periodic assessment of capital adequacy Loss of key personnel is a material risk to the business The Group mitigates this risk through its training, career development and remuneration policies

Report of the Directors

Committees

Statement of Directors' responsibilities

Independent auditor's report

Report of the Directors

The Directors present their Directors' report and financial statements for the year ended 31 March 2012

Principal Activities and Business Review

N M Rothschild & Sons Limited ("the Company") and its subsidiary undertakings (together with the Company, the Group") provide a range of banking and financial services The Company's principal place of business is at New Court, St. Swithin's Lane, London, EC4N 8AL. 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 page 6 and the Business review on pages 7 to 16

Results and Dividends

The profit for the financial year attributable to shareholders after tax and non-controlling interests was £8 732,000 (2011 £17,156 000) The profit attributable to shareholders has been dealt with as follows

	2012 £'000	2011 £ 000
Ordinary dividends paid	18 000	25 000
Transfer (from) reserves	(9 268)	(7 844)
	8 732	17,156

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 £544,000 (2011 £546,000) 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

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

Rothschild in the Community

Through the Rothschild in the Community programme we encourage our people to volunteer their time for community initiatives that make a real difference to people s lives In 2011/12 40% of NMRs London staff took part in our volunteering programme

Education

We work in partnership with three schools in economically deprived areas close to our offices Bow School of Maths and Computing, Old Palace Primary School and South Camden Community School Our volunteers participate in literacy support programmes, careers mentoring, employability events, work experience and support for children in transition from primary to secondary school Through all of this we aim to develop students' confidence, broaden their horizons and help them on the path towards achieving social mobility We also believe there is a role for us to play in supporting the schools' leadership teams as they work to drive up standards, and we are represented on the governing bodies of all three schools
We are delighted that our Business in the Community 'Big Tick', first awarded in 2010 in recognition of our work with schools, has been reaccredited in 2012, indicating that our partnerships have developed and continue to make a positive impact.

Community development

We support community organisations working to combat the effects of deprivation in the areas in which our partner schools are based Volunteers have this year supported the Bromley by Bow Centre City Gateway, Providence Row and the London Wildlife Trust, amongst others, volunteering on behalf of isolated elderly people, young people in vocational training, London s homeless, and our environment.

Report of the Directors

Rothschild and the Environment

We understand that the Group s day to day operations have an impact on the environment and we are committed to reducing that impact, promoting environmental awareness among our people, and to achieving continuous improvement in our environmental performance Environmental stewardship is the responsibility of the Environment Committee

Energy use

Our greatest environmental priority is to keep reducing our use of energy, particularly electricity, and in recent years we have achieved considerable success in this Having moved into our new building, we are now in the process of establishing a new baseline energy footprint, and beginning to map the opportunities for future improvements

Business travel

Air travel and the ability to meet our clients face to face is an important part of our business and a significant contributor to our overall CO_2 emissions We monitor our air travel and measure the associated carbon emissions by cabin class We operate a Green Flights' scheme to make staff aware of the greater level of emissions associated with flying Business Class and offer them the opportunity to choose a lower cabin class in return for a donation to the charity of their choice

Responsible use of resources

We promote a policy of reducing waste reusing what we or others can and recycling as much as possible In London the unused food from our kitchens is composted and converted into fertiliser, and any other waste which is not recycled is sent for incineration with energy capture, thus diverting it from landfill We purchase recycled paper and our printers are set to print double-sided as default We use mugs instead of disposable coffee cups where possible, and filtered tap water in place of bottled water in meeting rooms We have been awarded Gold four years running in the Clean City Awards

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

The recruitment, training, career development and promotion of disabled persons is fully and fairly considered having regard to the aptitudes and abilities of each individual Efforts are made to enable employees who become disabled during employment to continue their career with the Group and, if necessary, appropriate training is provided

Supplier Payment Policy

The Group does not currently follow any code or standard on payment practice It is the Group's policy to confirm the terms of payment with suppliers when agreeing the terms of each transaction, to ensure that those suppliers are made aware of the terms of payment, and to abide by the terms of payment Included within liabilities is the amount due to trade creditors which, at 31 March 2012, represented 34 days purchases outstanding

Directors

The names of the present Directors of the Company are shown on page 5

It is with much regret that the Directors record the death, on 19 April 2012, of Mr Leopold de Rothschild

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

Auditor

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 Annual General Meeting, in accordance with Section 485 of the Companies Act 2006

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

Anne-Marie Sizer

New Court St Swithin's Lane, London EC4N 8AL

24 July 2012

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, an intermediate parent company Its purpose is 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 Nigel Higgins (Chairman), Alexandre de Rothschild, Paul Barry, Mark Crump, Andrew Didham, Marc-Olivier Laurent, Robert Leitão Veit de Maddalena, Richard Martin, Olivier Pécoux, Jonathan Westcott.

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 other financial strategies and policies set by the Group Management Committee

Membership Anthony Alt (Chairman), Peter Barbour, Christopher Coleman, Paul Copsey, Mark Crump Andrew Didham, Denis Faller, Adam Greenbury, Richard Martin, Matthias Montani, Alexander Troschel, 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 Group Assets and Liabilities Committee

Membership Andrew Didham (Chairman), Christopher Coleman, Michael Clancy, Paul Copsey, Adam Greenbury, Peter Griggs, Debra Lewis, Paul Thompson, 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 Global Financial Advisory business

Membership Crispin Wright (Chairman), Sarah Blomfield, Adam Greenbury Dominic Hollamby Nicholas Ivey, Axel Stafflage, Albrecht Stewen Maurice Topiol, Stuart Vincent, William Wells, Jonathan Westcott, Adam Young

Group 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), Sylvain Hefes, Bernard Myers Judith Sprieser

Group Remuneration and Nominations Committee

This committee sets remuneration policies for the Group oversees the annual remuneration review and approves proposals for promotion

Membership Sylvain Hefes (Chairman), David de Rothschild Eric de Rothschild, Mark Evans, Peter Smith

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 and applicable law

Under company law the Directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the Group and Parent Company and of the profit or loss of the Group and Parent Company for that period

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 adequate accounting records that are sufficient to show and explain the Parent Company's transactions and disclose with reasonable accuracy at any time the financial position of the Parent Company and enable them to ensure that the financial statements comply with the Companies Act 2006 They have a general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the Group and to prevent and detect fraud and other irregularities

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

Independent auditor's 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 2012 set out on pages 23 to 90 The financial reporting framework that has been applied in their preparation is applicable law and International Financial Reporting Standards (IFRS ') as adopted by the EU and as regards the Parent Company financial statements, as applied in accordance with the provisions of the Companies Act 2006

This report is made solely to the Companys members as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006 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 auditors 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 Auditor

As explained more fully in the Statement of Directors' responsibilities on page 21, the Directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view Our responsibility is to audit, and express an opinion on, the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland) Those standards require us to comply with the Auditing Practices Board's (APB's) Ethical Standards for Auditors

Scope of the Audit of the Financial Statements

A description of the scope of an audit of financial statements is provided on the APB's web-site at

www frc org uk/apb/scope/private cfm

Opinion on Financial Statements

In our opinion

- the financial statements give a true and fair view of the state of the Group s and of the Parent Company's affairs as at 31 March 2012 and of the Group's profit for the year then ended,
- the Group financial statements have been properly prepared in accordance with IFRS as adopted by the EU,
- the Parent Company financial statements have been properly prepared in accordance with IFRS as adopted by the EU and as applied in accordance with the provisions of the Companies Act 2006, and
- the financial statements have been prepared in accordance with the requirements of the Companies Act 2006

Opinion on Other Matters Prescribed by the Companies Act 2006

In our opinion the information given in the Directors' report for the financial year for which the financial statements are prepared is consistent with the financial statements

Matters on Which we are Required to Report by Exception

We have nothing to report in respect of the following matters where the Companies Act 2006 requires us to report to you if in our opinion

- adequate accounting records have not been kept, or returns adequate for our audit have not been received from branches not visited by us, or
- the financial statements are not in agreement with the accounting records and returns, or
- certain disclosures of Directors' remuneration specified by law are not made, or
- we have not received all the information and explanations we require for our audit.

Karim K Haji (Senior Statutory Auditor)

For and on behalf of KPMG Audit Plc Statutory Auditor
Chartered Accountants
15 Canada Square
Canary Wharf
London
E14 5GL

24 July 2012

Consolidated income statement

For the year ended 31 March 2012

	Note	2012 £'000	2011 £'000
Interest and similar income	4	76,354	82,277
Interest expense and similar charges	4	(58958)	(63957)
Net interest income		**17,396**	**18,320**
Fee and commission income	5	354,991	384,118
Fee and commission expense	5	(22,951)	(24776)
Net fee and commission income		**332040**	**359,342**
Net trading income	6	2,958	2216
Other operating income	7	19939	16612
Total operating income		**372333**	**396,490**
Impairment losses	12,13	(12,770)	(2,190)
Net operating income		**359563**	**394,300**
Operating expenses	89	(320313)	(343945)
Depreciation and amortisation	18,19	(7842)	(6,420)
Share of profit in associates	16	3,514	1,920
Profit before income tax		**34,922**	**45,855**
Tax	10	(10,291)	(15,593)
Profit for the year*		**24,631**	**30,262**

* Of the £24 631,000 (2011 £30 262,000) profit for the year, £8,732,000 (2011 £17,156,000) is attributable to ordinary shareholders of the parent company, £9,007,000 (2011 £8,514,000) is attributable to holders of perpetual instruments and £6,892,000 (2011 £4,592,000) is attributable to other non-controlling interests

The notes on pages 31 to 90 form an integral part of these financial statements

Consolidated statement of comprehensive income

For the year ended 31 March 2012

	Note	2012 £'000	2011 £'000
Profit for the financial year		**24,631**	30 262
Other comprehensive income			
Available-for-sale investments			
Change in fair value of assets classified as available-for-sale		(14 205)	33 827
Net change in fair value of available-for-sale financial assets transferred to income statement		(526)	(2 220)
Amortisation of fair value of reclassified assets	12	5 037	5 987
Cash flow hedges			
Effective portion of changes in fair value of cash flow hedges		2 156	2,384
Other items recognised directly in equity			
Actuarial (losses)/gains on defined benefit pension funds		(62,224)	27 725
Exchange differences on translation of foreign operations		(3 570)	88
Income tax on other comprehensive income	10	12 969	(22 803)
Other comprehensive income for the financial year, net of income tax		**(60,363)**	**44,988**
Total comprehensive income for the financial year		**(35 732)**	**75,250**
Attributable to			
– Ordinary shareholders of the parent		(50 463)	63,142
– Holders of perpetual instruments		9,007	8 514
– Other non controlling interests		5,724	3 594
		(35,732)	**75 250**

The notes on pages 31 to 90 form an integral part of these financial statements

Consolidated balance sheet

At 31 March 2012

	Note	2012 £'000	2011 £'000
Assets			
Cash and balances at central banks		543 038	646 535
Loans and advances to banks	12	156,273	375 066
Loans and advances to customers	12	817,664	881 106
Available for-sale financial assets	13	372,677	575 657
Derivatives	14	25 117	17,144
Other assets	15	145,281	151 697
Current tax assets		2,479	4 665
Investments in associates	16	38 510	40 121
Intangible assets	18	22 631	14 903
Property plant and equipment	19	63,136	31 729
Deferred tax assets	22	98 214	85 971
Total assets		**2 285,020**	**2 824 594**
Liabilities			
Deposits by banks		178 139	176 362
Customer deposits		1,085,832	1,235 300
Repurchase agreements		–	41 708
Derivatives	14	4 366	14 575
Debt securities in issue	20	141 720	460,751
Other liabilities	21	139,110	129 008
Current tax liabilities		4,985	6 367
Accruals and deferred income		234 293	195 940
Total liabilities		**1,788 445**	**2,260,011**
Equity			
Share capital	30	57 655	57,655
Share premium account		97 936	97 936
Retained earnings		229,376	288,458
Other reserves		(31 320)	(21,939)
Total shareholders equity attributable to ordinary shareholders		**353 647**	**422,110**
Non-controlling interests	29	18 593	18,138
Perpetual instruments	31	124 335	124,335
Total equity		**496,575**	**564,583**
Total equity and liabilities		**2,285,020**	**2,824,594**

The accounts on pages 23 to 90 were approved by the Board of Directors and were signed on its behalf by

Andrew Didham, Director

24 July 2012

The notes on pages 31 to 90 form an integral part of these financial statements

Consolidated statement of changes in equity

For the year ended 31 March 2012

	Share capital £'000	Share premium £'000	Retained earnings £'000	Translation reserve £'000	Available-for-sale reserve £'000	Hedging reserve £'000	Perpetual instruments £'000	Non-controlling interests £'000	Total equity £'000
At 1 April 2011	57,655	97,936	288,458	15,719	(38,027)	369	124,335	18,138	564,583
Total comprehensive income for the period	–	–	(41,082)	(2,452)	(8,577)	1,648	9,007	5,724	(35,732)
Dividends	–	–	(18,000)	–	–	–	–	(5,269)	(23,269)
Interest on perpetual instruments	–	–	–	–	–	–	(12,172)	–	(12,172)
– Tax thereon	–	–	–	–	–	–	3,165	–	3,165
At 31 March 2012	57,655	97,936	229,376	13,267	(46,604)	2,017	124,335	18,593	496,575
At 1 April 2010	57,655	97,936	278,804	14,647	(63,717)	(1,357)	124,335	28,354	536,657
Total comprehensive income for the period	–	–	34,654	1,072	25,690	1,726	8,514	3,594	75,250
Dividends	–	–	(25,000)	–	–	–	–	(13,810)	(38,810)
Interest on perpetual instruments	–	–	–	–	–	–	(11,825)	–	(11,825)
– Tax thereon	–	–	–	–	–	–	3,311	–	3,311
At 31 March 2011	57,655	97,936	288,458	15,719	(38,027)	369	124,335	18,138	564,583

The notes on pages 31 to 90 form an integral part of these financial statements

Company balance sheet

At 31 March 2012

	Note	2012 £'000	2011 £'000
Assets			
Cash and balances at central banks		543025	646,523
Loans and advances to banks	12	91834	292,357
Loans and advances to customers	12	784680	847455
Available-for-sale financial assets	13	371144	573004
Derivatives	14	25117	17144
Other assets	15	104294	111999
Current tax assets		347	900
Shares in subsidiary undertakings	32	43,547	43547
Investments in associates	16	36611	39,208
Investments in joint ventures	17	5375	5,375
Property, plant and equipment	19	51562	19271
Deferred tax assets	22	88140	72625
Total assets		**2,145 676**	**2,669,408**
Liabilities			
Deposits by banks		178139	176195
Customer deposits		1160345	1616552
Repurchase agreements		–	41,708
Derivatives	14	4,366	14538
Debt securities in issue	20	83365	93413
Other liabilities	21	112,010	109811
Accruals and deferred income		178246	122957
Total liabilities		**1,716,471**	**2,175,174**
Equity			
Share capital	30	57655	57,655
Share premium account		97,936	97,936
Perpetual instruments	31	124,335	124,335
Retained earnings		195460	253,140
Other reserves		(46181)	(38832)
Total equity		**429,205**	**494234**
Total equity and liabilities		**2,145,676**	**2,669,408**

The accounts on pages 23 to 90 were approved by the Board of Directors and were signed on its behalf by

Andrew Didham, Director

24 July 2012

The notes on pages 31 to 90 form an integral part of these financial statements

Company statement of changes in equity

For the year ended 31 March 2012

	Share capital £'000	Share premium £'000	Retained earnings £'000	Available-for-sale reserve £'000	Hedging reserve £'000	Perpetual instruments £ 000	Total equity £'000
At 1 April 2011	57,655	97,936	253,140	(39,201)	369	124,335	494 234
Profit for the financial year	–	–	10 092	–	–	9 007	19 099
Other comprehensive income							
Available-for-sale investments							
Change in fair value of assets classified as available-for-sale	–	–	–	(14 492)	–	–	(14 492)
Net change in fair value of available-for sale financial assets transferred to income statement	–	–	–	(526)	–	–	(526)
Amortisation of fair value of reclassified financial assets	–	–	–	5 037	–	–	5 037
Cash flow hedges							
Effective portion of changes in fair value of cash flow hedges	–	–	–	–	2,156	–	2 156
Other items							
Actuarial losses on defined benefit pension funds	–	–	(62,222)	–	–	–	(62 222)
Income tax on other comprehensive income	–	–	12 450	984	(508)	–	12 926
Dividends	–	–	(18 000)	–	–	–	(18,000)
Interest on perpetual instruments	–	–	–	–	–	(12 172)	(12 172)
– Tax thereon	–	–	–	–	–	3 165	3 165
At 31 March 2012	57,655	97,936	195,460	(48,198)	2,017	124,335	429 205
At 1 April 2010	57,655	97,936	238 690	(64,741)	(1,357)	124 335	452,518
Profit for the financial year	–	–	21 922	–	–	8 514	30 436
Other comprehensive income							
Available-for-sale investments							
Change in fair value of assets classified as available-for sale	–	–	–	33,662	–	–	33,662
Net change in fair value of available-for-sale financial assets transferred to income statement	–	–	–	(2,220)	–	–	(2,220)
Amortisation of fair value of reclassified financial assets	–	–	–	5,987	–	–	5 987
Cash flow hedges Effective portion of changes in fair value of cash flow hedges	–	–	–	–	2 384	–	2 384
Other items Actuarial gains on defined benefit pension funds	–	–	27 795	–	–	–	27,795
Income tax on other comprehensive income	–	–	(10 267)	(11 889)	(658)	–	(22 814)
Dividends	–	–	(25 000)	–	–	–	(25,000)
Interest on perpetual instruments	–	–	–	–	–	(11,825)	(11 825)
– Tax thereon	–	–	–	–	–	3,311	3 311
At 31 March 2011	57,655	97 936	253,140	(39 201)	369	124 335	494,234

The notes on pages 31 to 90 form an integral part of these financial statements

Cash flow statements

For the year ended 31 March 2012

	Note	2012 Group £000	2012 Company £'000	2011 Group £000	2011 Company £'000
Cash flow from operating activities					
Profit before income tax for the financial year		34,922	18 407	45,855	37 748
Adjustments to reconcile net profit to cash flow from operating activities					
Non-cash items included in net profit and other adjustments					
Depreciation and amortisation		7842	3614	6420	2785
Dividends from subsidiaries and associates		–	(20809)	–	(23,650)
Share of operating profit of associates		(3,514)	–	(1920)	–
Impairment of financial and other assets (net of recovery)		12,770	15083	2190	3753
Unrealised exchange gains – non-operating assets		(2,616)	–	(824)	–
(Profit)/loss on disposal of available-for-sale assets		(2510)	(2,510)	107	136
Profit on disposal of subsidiaries		(546)	–	–	–
Profit on disposal of fixed assets		(130)	(7)	(563)	–
		11,296	(4,629)	5,410	(16,976)
Net decrease/(increase) in operating assets					
Net due to/from banks (excluding cash equivalents)		1,903	1,944	(96029)	(101761)
Derivatives		(7973)	(7973)	3	3
Available-for-sale financial assets		193895	193067	219277	219874
Loans and advances to customers		51994	49014	207905	255540
Accrued income, prepaid expenses and other assets		6,733	7,705	29555	(33,084)
		246,552	243757	360,711	340572
Net (decrease)/increase in operating liabilities					
Customer deposits		(149,468)	(456207)	(1,190)	(62,056)
Repurchase agreements		(41708)	(41708)	(166,670)	(166,670)
Derivatives		(8053)	(8016)	(3782)	(3,723)
Debt securities in issue		(319031)	(10048)	(5158)	4,322
Accrued expenses and other liabilities		(19,651)	(4734)	(117595)	(72802)
Income taxes (paid)/received		(6004)	1821	(14690)	(1375)
		(543,915)	(518,892)	(309,085)	(302,304)
Net cash flow (used in)/from operating activities*		(251,145)	(261,357)	102,891	59,040
Cash flow (used in)/from investing activities					
Acquisition/increase in stake of subsidiaries, associates and joint ventures		(3314)	(906)	(2,420)	(2,043)
Dividends received from subsidiaries and associates		2,509	20,809	1496	23650
Proceeds from disposal of subsidiaries and associates		4049	3503	527	787
Purchase of fixed assets		(39866)	(35,905)	(18778)	(14271)
Disposal of fixed assets		1,044	7	1402	2
Net cash flow (used in)/from investing activities		(35,578)	(12,492)	(17,773)	8125
Cash flow used in financing activities					
Dividends paid		(18000)	(18,000)	(25000)	(25,000)
Interest paid on perpetual instruments		(12172)	(12,172)	(11825)	(11,825)
Distributions to non-controlling interests		(5269)	–	(13810)	–
Net cash flow used in financing activities		(35,441)	(30,172)	(50,635)	(36825)
Net (decrease)/increase in cash and cash equivalents		(322164)	(304,021)	34483	30,340
Cash and cash equivalents at 1 April		1,016,932	938880	982449	908,540
Cash and cash equivalents at 31 March	27	694,768	634,859	1,016,932	938,880

* Group cash paid and received for interest during 2012 was £60,333,000 (2011 £59,450,000) and £73,967000 (2011 £82,056000) respectively Company cash paid and received for interest during 2012 was £58,314,000 (2011 £55,719,000) and £61 323,000 (2011 £70,228,000) respectively

The notes on pages 31 to 90 form an integral part of these financial statements

Notes to the Financial Statements

(forming part of the Financial Statements)

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

Developments in reporting standards and interpretations

Standards affecting the financial statements

In the current year, the only new or revised Standard that has affected the amounts reported in these financial statements is the amendments to IFRS 7 'Financial Instruments Disclosures that was implemented as part of Improvements to IFRSs (2010)

Part of the amendment requires additional disclosure of the financial effect of collateral held as security in respect of financial instruments and this is shown as part of note 2 2 on page 45 of the financial statements

Standards not affecting the reported results or the financial position

The following new and revised Standards and Interpretations have been adopted in the current year Their adoption has not had any significant impact on the amounts reported in these financial statements but may impact the accounting for future transactions and arrangements

- IFRIC 19 Extinguishing Financial Liabilities with Equity Instruments
- IAS 24 Related Party Disclosures (Revised 2009)'

The following amendments were made as part of Improvements to IFRSs (2010)

- Amendments to IFRS 1 'First-time Adoption of International Financial Reporting Standards'
- Amendments to IFRS 3 'Business Combinations'
- Amendments to IAS 1 'Presentation of Financial Statements'
- Amendments to IAS 27 'Consolidated and Separate Financial Statements'
- Amendments to IFRIC 13 'Customer Loyalty Programmes'

Notes to the Financial Statements

(forming part of the Financial Statements)

1. Summary of significant accounting policies (continued)

New Standards and interpretations

A number of new standards, amendments to standards and interpretations are effective for annual periods beginning after 1 April 2011 and therefore have not been applied in preparing these consolidated financial statements The Group is currently reviewing these new standards to determine their effects on the Group's financial reporting Those that may have a significant effect on the consolidated financial statements of the Group are

Accounting standards first effective in the Group's 2014 consolidated financial statements

IFRS 10 Consolidated Financial Statements replaces IAS 27 Consolidated and Separate Financial Statements and SIC-12 Consolidation – Special Purpose Entities The new standard introduces a single model of assessing control Control exists where an investor has the power to direct the activities of another entity in order to influence the returns to the investor

IFRS 11 Joint Arrangements replaces IAS 31 Interests in Joint Ventures The new standard requires all joint ventures to be equity accounted whereas currently, the Group accounts for joint ventures by proportional consolidation

IFRS 12 Disclosure of Interests in Other Entities sets out new disclosure requirements in respect of interests in subsidiaries, joint arrangements and associates It also introduces new requirements for unconsolidated structured entities

IAS 19 Employee Benefits (revised) makes significant changes to the recognition and measurement of defined benefit expenses recognised in the income statement

Accounting standards first effective in the Group's 2016 consolidated financial statements

IFRS 9 Financial Instruments replaces certain elements of IAS 39 Financial Instruments Recognition and Measurement in respect of the classification and measurement of financial assets and liabilities

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 2006 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 2012 and consolidate the audited financial statements of the Company and its subsidiary undertakings

Subsidiary undertakings

Subsidiary undertakings are all entities (including special purpose entities "SPEs") 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 SPEs are consolidated when the substance of the relationship between the Group and the SPE indicates control by the Group. Potential indicators of control include an assessment of the risks and benefits relating to the SPE's activities 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

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, for acquisitions prior to the adoption of the amendment to IFRS 3, any costs directly attributable to the acquisition Since the adoption of the amendment to IFRS 3, any costs attributable to the acquisition are expensed through the Income Statement 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 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 less any impairment losses

Notes to the Financial Statements

(forming part of the Financial Statements)

1. Summary of Significant Accounting Policies (continued)

Basis of consolidation (continued)

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 Groups 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

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 Groups financial statements include its share of the joint ventures 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

In the Parent Company financial statements investments in joint ventures are carried at cost.

Going concern

The Group has considerable resources and continues to generate new profitable business It is well placed to manage its business risk for the forseeable future despite an uncertain economic outlook and, therefore, the financial statements have been prepared on a going concern basis

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 cashflows 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

Notes to the Financial Statements

(forming part of the Financial Statements)

1. Summary of Significant Accounting Policies (continued)

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

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 cashflows 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

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

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 as part of trading income

Notes to the Financial Statements

(forming part of the Financial Statements)

1. Summary of Significant Accounting Policies (continued)

Interest income and expense

Interest income and expense represents interest arising out of banking activities including lending and deposit-taking business interest on related hedging transactions and interest on debt securities Net interest arising from interest rate instruments held for trading are included in trading income Interest income and expense is recognised in the income statement using the effective interest rate method

The effective interest rate is the rate that exactly discounts the estimated future cashflows 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 financial asset.

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

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

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 advances, held-to-maturity investments, or available-for-sale The Group does not hold any assets that are classified as held-to-maturity investments

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 cashflow 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 advances

Loans and advances 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 advances are initially recorded at fair value, including any directly attributable 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

Financial assets that have been reclassified as loans and advances out of the available-for-sale category are reclassified at fair value on the date of reclassification and are subsequently measured at amortised cost using the effective interest rate method Any gain or loss recognised in equity prior to reclassification is amortised to the income statement over the remaining maturity of the financial asset.

Notes to the Financial Statements

(forming part of the Financial Statements)

I. Summary of Significant Accounting Policies (continued)

Financial assets and liabilities (continued)

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 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

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

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 cashflows 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.

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 cashflow 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 and creditors is materially the same as invoice value

Sale and repurchase agreements

When securities are sold subject to a commitment to repurchase them at a predetermined price, they remain on the balance sheet and a liability is recorded in respect of the consideration received The difference between the sale and repurchase price is treated as interest and recognised over the life of the agreement Securities acquired in a reverse sale and repurchase agreement are not recognised and the consideration is recorded in loans and advances on the balance sheet.

Notes to the Financial Statements

(forming part of the Financial Statements)

I. Summary of Significant Accounting Policies (continued)

Financial assets and liabilities (continued)

Securitisation transactions

The Group may enter 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

Impairment of financial assets

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

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 cashflows 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 advances

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 cashflows 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 cashflows of a financial asset reflects the cashflows that may result from scheduled interest payments, principal repayments, or other payments due, including liquidation of collateral where available In estimating these cashflows, management makes judgements 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 cashflows 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 cashflows 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 cashflows 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)

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 cashflows 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, which requires judgement by management

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 fair value on an equity share classified as available-for-sale increases, the impairment loss 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 contractual terms of the transaction takes precedence over its economic substance in determining how it should be classified The terms of the perpetual debt instruments issued by the Group permit interest payments to be waived unless the Company has paid a dividend in the previous six months and are therefore considered to be equity

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

When the Group increases its stake in an entity which it already controls, any difference between the price paid for the additional stake and the increase in the net assets acquired by the Group is recognised directly in equity

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 cashflows 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.

Notes to the Financial Statements

(forming part of the Financial Statements)

1. Summary of Significant Accounting Policies (continued)

Goodwill and intangible assets (continued)

ii Intangible assets comprise acquired intellectual property rights and future servicing rights, which are carried at cost less accumulated amortisation and impairment losses The intellectual property rights are amortised on the basis of an estimated useful life of 10 years The future servicing rights are amortised over the servicing period as the fees from servicing are recognised Intangible assets 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 and, if necessary, an impairment charge is recognised in the income statement

Property, plant and equipment

All property, plant and equipment is stated at cost Cost includes expenditure that is directly attributable to the acquisition of the asset including, in respect of leasehold improvements, costs incurred in preparing the property for occupation (this includes rent paid whilst the preparation work is undertaken)

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	2-5 years
Cars	3-5 years
Fixtures and fittings	3-10 years
Leasehold improvements	4-24 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

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 office premises The total payments made under operating leases are charged to the income statement as operating expenses

Notes to the Financial Statements

(forming part of the Financial Statements)

1. Summary of Significant Accounting Policies (continued)

Cash and cash equivalents

Cash and cash equivalents comprise balances with original maturities of three months or less, including cash and non-restricted balances with central banks, certificates of deposit and loans and advances to banks

Pensions

The Group s post-retirement benefit arrangements are described in note 23 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 the income statement and presented in the statement of comprehensive income 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 23 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 liabilities

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

The Group has entered into cash-settled share-based payment transactions as part of the long term profit share schemes The fair value of such awards are measured at the date they are made and remeasured at each reporting date Such awards are recognised in the income statement over the vesting period until 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

The principal temporary differences arise from depreciation of property, plant and equipment, deferred profit share arrangements, revaluation of certain financial instruments including derivative contracts and available-for-sale securities, 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

Notes to the Financial Statements

(forming part of the Financial Statements)

1. Summary of Significant Accounting Policies (continued)

Provisions and contingencies (continued)

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

Accounting judgements and estimates

The preparation of financial statements in accordance with IFRS requires the use of certain critical accounting estimates It also requires management to exercise judgement in applying the accounting policies

Valuation of financial assets and liabilities

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 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

A description of the valuation techniques used, analysis of assets and liabilities carried at fair value by valuation hierarchy, and a sensitivity analysis of valuations not primarily based on observable market data, is provided in note 3 to the financial statements

Impairment of financial assets

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 If there is such objective evidence, and that this has a negative effect on the estimated future cashflows from the asset, then an impairment loss is incurred The amount of the loss is measured as the difference between the asset's carrying amount and the present value of expected future cashflows discounted at the asset's original effective interest rate

Portfolios of financial assets with similar economic characteristics where there is objective evidence to suggest that they contain impaired assets but the individually impaired items cannot yet be identified, are collectively assessed for impairment The collectively assessed impairment allowance is calculated on the basis of future cashflows that are estimated based on historical loss experience

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

Pensions

The defined benefit obligation is calculated annually by independent actuaries using the projected unit credit method and the principal assumptions used are set out in note 23 The assumptions that have the greatest impact on the measurement of the pension fund liability are those related to retail price inflation and the discount rate used For example a 0 5% fall in the discount rate used would result in a £59 million increase in the measurement of the pension fund liabilities Similarly, a 0 5% increase in the forecast rate of retail price inflation would result in a £42 million increase in pension fund liabilities

Deferred tax

Deferred tax assets, including those in relation to tax losses carried forward, are only recognised where it is probable that future taxable profits will be available against which the temporary differences can be utilised After reviewing medium term profit forecasts, as adjusted for tax purposes, the Group considers that there will be sufficient future profits against which these deferred tax assets can be utilised

Goodwill

Goodwill is assessed at each balance sheet date to determine whether it is impaired The assessment includes management assumptions on future income flows and judgements and on appropriate discount rates Management performs sensitivity analysis of these assumptions to support the valuation

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 and uses derivatives principally 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 14 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 will encounter difficulty in meeting obligations associated with financial liabilities that are settled by delivering cash or another financial asset.

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 Group Assets and Liabilities 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 not designated categories 2 to 5

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

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

Past due but not impaired

Exposures that have failed to make a scheduled interest or principal repayment although full recovery is expected

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

Notes to the Financial Statements

(forming part of the Financial Statements)

2. Financial Risk Management (continued)

2 2 Credit risk (continued)

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 Accounts receivable are treated as past due when more than 90 days has elapsed since the invoice was issued

Group	Category 1 £'000	Category 2 £'000	Category 3 £'000	Past due but not impaired £ 000	Categories 4 and 5 £'000	Impairment allowance £ 000	Total (net) £'000
At 31 March 2012							
Cash and balances at central banks	543 038	–	–	–	–	–	543 038
Derivatives	25 117	–	–	–	–	–	25 117
Loans and advances to banks	156 273	–	–	–	–	–	156,273
Loans and advances to customers	491,873	103 721	126,786	12 259	158 829	(75 804)	817,664
Available-for-sale financial assets							
– debt securities	264 008	125	–	–	10 891	(10 891)	264 133
Commitments and guarantees	49,826	1 013	4,708	–	1,206	–	56,753
Accounts receivable	99,688	–	11	3 725	4,161	(3 420)	104 165
Total	**1 629,823**	**104,859**	**131,505**	**15,984**	**175,087**	**(90,115)**	**1,967,143**
At 31 March 2011							
Cash and balances at central banks	646 535	–	–	–	–	–	646 535
Derivatives	17 144	–	–	–	–	–	17 144
Loans and advances to banks	375 066	–	–	–	–	–	375 066
Loans and advances to customers	575 061	106 526	121 728	44 716	102 113	(69,038)	881,106
Available-for-sale financial assets							
– debt securities	448 393	2,040	4 100	–	34,045	(29 044)	459,534
Commitments and guarantees	21 423	7,979	4 075	–	21	–	33 498
Accounts receivable	101 888	7	–	3 510	5 772	(3,306)	107,871
Total	**2,185,510**	**116,552**	**129,903**	**48,226**	**141,951**	**(101,388)**	**2,520 754**

The table below analyses amounts past due but not impaired

Group	Past due by < 6 months £'000	Past due by > 6 months £'000	Total £'000
At 31 March 2012			
Loans and advances to customers	4 098	8 161	12,259
Accounts receivable	799	2,926	3 725
Total	**4,897**	**11,087**	**15,984**
At 31 March 2011			
Loans and advances to customers	14 536	30 180	44 716
Accounts receivable	1 427	2,083	3 510
Total	**15,963**	**32,263**	**48,226**

Notes to the Financial Statements

(forming part of the Financial Statements)

2. Financial Risk Management (continued)

2 2 Credit risk (continued)

Company	Category 1 £'000	Category 2 £'000	Category 3 £'000	Past due but not impaired £'000	Categories 4 and 5 £'000	Impairment allowance £'000	Total (net) £'000
At 31 March 2012							
Cash and balances at central banks	543 025	–	–	–	–	–	543,025
Derivatives	25,117	–	–	–	–	–	25 117
Loans and advances to banks	91,834	–	–	–	–	–	91 834
Loans and advances to customers	459 401	103 721	126,786	7 334	159 999	(72,561)	784 680
Available-for-sale financial assets – debt securities	263 883	125	–	–	10 891	(10 891)	264 008
Commitments and guarantees	247,481	1,013	4 708	–	1 206	–	254,408
Accounts receivable	76,572	–	–	1,721	3 700	(2,959)	79 034
Total	**1 707 313**	**104,859**	**131,494**	**9 055**	**175,796**	**(86,411)**	**2,042,106**
At 31 March 2011							
Cash and balances at central banks	646,523	–	–	–	–	–	646 523
Derivatives	17 144	–	–	–	–	–	17,144
Loans and advances to banks	292,357	–	–	–	–	–	292,357
Loans and advances to customers	551,330	106 526	121 728	35,510	98 330	(65,969)	847 455
Available for-sale financial assets – debt securities	448 393	2 040	4,100	–	34,045	(29,044)	459 534
Commitments and guarantees	551 966	7 979	4 075	–	21	–	564 041
Accounts receivable	83 178	7	–	1 679	1,881	(1 574)	85 171
Total	**2,590,891**	**116,552**	**129 903**	**37,189**	**134,277**	**(96 587)**	**2,912,225**

The table below analyses amounts past due but not impaired

Company	Past due by < 6 months £'000	Past due by > 6 months £'000	Total £'000
At 31 March 2012			
Loans and advances to customers	292	7 042	7 334
Accounts receivable	747	974	1 721
Total	**1,039**	**8,016**	**9,055**
At 31 March 2011			
Loans and advances to customers	6,413	29 097	35 510
Accounts receivable	1 189	490	1 679
Total	**7,602**	**29,587**	**37,189**

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

All non-group commercial lending is secured Collateral is split by type, as either specific or general

Specific collateral is readily identifiable, the majority of which will be charges over property or plant and equipment If necessary there is a realistic possibility of both taking possession of and realising the collateral

General collateral will be more difficult to both identify and realise It will usually be a general floating charge over the assets of a business, and is typically attached to leveraged finance assets It is not practicable to ascribe a specific value to this collateral

Unimpaired loans (levels 1 to 3) are covered by both specific and general collateral Unimpaired amounts covered by specific collateral includes property lending of £275 million, of which over 90% has specific collateral in excess of the amount advanced, and asset based lending of £122 million which is fully collateralised Where a loan is deemed to be impaired (level 4 and 5 assets), the level of the impairment charge is primarily driven by any expected shortfall in the collateral value, although it is also influenced by the ability of the borrower to service the debt

Collateral is valued independently at the time the loan is made and periodically thereafter on a rolling basis Management are able to roll forward a valuation for reporting purposes via a combination of specific knowledge of the property and the application of general property indices

The table below gives an estimate of the fair value of collateral that could be realised by the Group as security against exposures to customers that are individually impaired and past due but not impaired

	Past due but not impaired 2012 £'000	Individually impaired 2012 £'000	Past due but not impaired 2011 £'000	Individually impaired 2011 £'000
Group				
Property	3,317	79 439	25 484	32,263
Debt and equity securities	–	2,000	–	5 494
Commercial vehicles and other equipment	3 673	1,951	6,020	7,038
Guarantees and fixed or floating charges	5 212	22 797	13 981	14 545
Other	–	1 545	–	2,269
Collateral held	**12,202**	**107,732**	**45,485**	**61,609**
Amount of exposures collateralised (net of specific provisions)	**12,259**	**112,835**	**44,716**	**67,691**
Company				
Property	2,065	74,944	21 529	35 323
Debt and equity securities	–	2,000	–	5,494
Commercial vehicles and other equipment	–	115	–	2,271
Guarantees and fixed or floating charges	5,212	22,797	13,981	14,545
Other	–	1 545	–	2,269
Collateral held	**7,277**	**101,401**	**35 510**	**59,902**
Amount of exposures collateralised (net of specific provisions)	**7,334**	**106,504**	**35,510**	**65,995**

2. Financial Risk Management (continued)

2 2 Credıt rısk (contınued)

c Forbearance

As refinancıng and sale optıons are currently lımited ıt ıs generally ın the lender's and borrower's ınterest to extend certaın facılıtıes at maturıty and not to foreclose on the securıty Thıs assumes there are no underlyıng ıssues regardıng the borrower's abılıty to contınue to servıce the loan and the level of collateral ıs expected to be of suffıcıent qualıty to secure the prıncıpal

Unımpaıred loans extended ın thıs manner are not categorısed as eıther past due or as renegotıated As at 31 March 2012, loans wıth a carryıng value of £228 5m had been extended (2011 £293 1), all of whıch were property loans

There are a small number of loans whıch are overdue but not ımpaıred pendıng an extensıon of maturıty As at 31 March 2012 these amounted to £7 3m

Some loans were renegotıated on substantıally dıfferent terms than before Typıcally these loans wıll ınclude revısed covenants and hıgher margıns to reflect hıgher credıt rısk as well as havıng extended maturıtıes But for these renegotıatıons the loans would have been deemed to have been ımpaıred As at 31 March 2012 the carry value of all loans renegotıated was £104 6m (2011 £111 6m)

d Credıt rısk concentratıons

The Group monıtors concentratıons of credıt rısk by geographıc locatıon and by ındustry sectorThe followıng tables show an analysıs of credıt rısk by locatıon and by sectorThe locatıon for loans and advances ıs determıned by reference to the locatıon of the borrower, and debt securıtıes are recorded based on the locatıon of the ıssuer of the securıty In the current clımate exposures to the weaker eurozone economıes are closely monıtored by senıor management and the Group has no sovereıgn debt exposure to perıpheral eurozone economıes

Wıthın "other Europe' avaılable-for-sale fınancıal assets are £53 mıllıon of assets wıth exposure to the weaker eurozone countrıes Of thıs, £40 mıllıon relates to a portfolıo of resıdentıal mortgage backed securıtıes Each asset ıs top tıer ın ıts respectıve structure benefıtıng from substantıal credıt support from the subordınatıon of junıor notes and excess reserve balances The remaınıng £13 mıllıon relates to collateralısed loan oblıgatıons, whıch have some exposure to the weaker economıes

Loans to customers ınclude £24 mıllıon of loans to the weaker eurozone economıes, all of whıch have been subject to close revıew The Group expects to realıse the carryıng value of these loans

The sector analysıs ıs based on Global Industry Classıfıcatıon Standards and ıncludes derıvatıves, loans and advances to banks, loans and advances to customers, debt securıtıes, commıtments and guarantees

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 and Channel Islands £'000	Other Europe £'000	US and Canada £'000	Other £'000	Total £'000
Group					
At 31 March 2012					
Cash and balances at central banks	543025	13	–	–	543038
Derivatives	13,422	11,671	24	–	25,117
Loans and advances to banks	53076	69061	8252	25884	156273
Loans and advances to customers	601981	187134	15063	13486	817664
Available-for-sale financial assets – debt securities	138265	113,954	10077	1,837	264,133
Commitments and guarantees	43473	13,280	–	–	56753
Accounts receivable	53,714	31018	6,198	13,235	104165
Total	1,446956	426,131	39,614	54,442	1,967,143
At 31 March 2011					
Cash and balances at central banks	646523	12	–	–	646535
Derivatives	11383	5,761	–	–	17,144
Loans and advances to banks	83111	254,912	25	37018	375,066
Loans and advances to customers	604967	241424	21,356	13359	881106
Available-for-sale financial assets – debt securities	342,665	87820	23354	5695	459534
Commitments and guarantees	10596	17,089	777	5036	33498
Accounts receivable	55,239	37975	4487	10,170	107871
Total	1,754,484	644,993	49,999	71,278	2,520,754
Company					
At 31 March 2012					
Cash and balances at central banks	543025	–	–	–	543025
Derivatives	13422	11671	24	–	25,117
Loans and advances to banks	49616	33,390	8252	576	91834
Loans and advances to customers	567956	188,175	15063	13,486	784680
Available-for-sale financial assets – debt securities	138265	113,829	10,077	1837	264008
Commitments and guarantees	241045	13,363	–	–	254408
Accounts receivable	49268	17,217	5,010	7539	79,034
Total	1602,597	377,645	38426	23,438	2,042,106
At 31 March 2011					
Cash and balances at central banks	646,523	–	–	–	646,523
Derivatives	11383	5761	–	–	17144
Loans and advances to banks	79975	211,866	25	491	292,357
Loans and advances to customers	570344	242396	21,356	13359	847455
Available-for-sale financial assets – debt securities	342,665	87,820	23354	5695	459,534
Commitments and guarantees	541,051	17177	777	5036	564041
Accounts receivable	50,867	27,458	4,425	2421	85,171
Total	2,242,808	592,478	49,937	27002	2,912,225

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	2012 £'000	2011 £'000
Group		
Energy	–	6 745
Materials	60,739	90,309
Industrials	89 187	97,763
Consumer discretionary	96,128	105 282
Consumer staples	70 410	43 137
Health care	15 378	15,996
Financial (see below)	348 020	618 584
Real estate (see below)	373,121	423 682
IT and telecoms	21 200	41 856
Utilities	–	3,639
Governments and Central Banks	698,935	868 774
Private persons	21 988	22 466
Related party loans commitments and guarantees	67 872	74 650
Total	**1 862 978**	**2,412 883**
Company		
Energy	–	6 745
Materials	56,743	86 955
Industrials	39 030	53,016
Consumer discretionary	52,676	66 673
Consumer staples	55,052	41,466
Health care	9,514	9 989
Financial (see below)	283 454	535,934
Real estate (see below)	371 963	421 492
IT and telecoms	21 200	41 856
Utilities	–	3,639
Governments and Central Banks	686,393	851 669
Private persons	21 988	22 466
Related party loans, commitments and guarantees	365,059	685,154
Total	**1,963,072**	**2 827 054**

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	
Financial sector	**2012 £'000**	**2011 £'000**	**2012 £'000**	**2011 £'000**
Short term interbank exposures	156,273	375,066	91,834	292,357
Investment grade securities	55,758	182,398	55,758	182,398
Cash/investment backed lending	75,503	–	75,503	–
Finance companies	9,170	16,688	9,170	16,688
Other	51,316	44,432	51,189	44,491
Total	**348,020**	**618,584**	**283,454**	**535,934**

Short term interbank lending and investment grade securities are held for liquidity management purposes

	Group		Company	
Real estate sector	**2012 £'000**	**2011 £'000**	**2012 £'000**	**2011 £'000**
Senior loans	305,638	348,115	304,480	345,925
Subordinated/mezzanine loans	67,483	75,567	67,483	75,567
Total	**373,121**	**423,682**	**371,963**	**421,492**

Real estate exposures are generally 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 (retail, office and industrial) and are located predominantly within the UK There are no material exposures to loans with elements of development financing

2.3 Market risk

Market risk arises as a result of the Group's activities in interest rate, currency and equity markets and comprises interest rate, foreign exchange and equity price 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 Market risk arising in the Company's subsidiary undertakings is immaterial

Limits on market risk exposure are set by the Group Assets and Liabilities 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 and equity positions are described below with a description of risk management and the levels of risk

2. Financial Risk Management (continued)

2 3 Market risk (continued)

Treasury

Market risk in treasury activities arises from interest rate and foreign exchange positions Foreign exchange and interest rate contracts are predominantly used 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 2012			12 months to 31 March 2011		
Company	Average £'000	High £'000	Low £'000	Average £'000	High £ 000	Low £'000
Interest rate risk	474	2 006	191	480	912	246
Foreign exchange risk	19	85	1	18	79	2
Total value at risk	**493**	**2,091**	**192**	**498**	**991**	**248**

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

Equities

The Group has exposure to equity price risk through holdings of equity investments Each position is approved by senior management and is monitored on an individual basis The table below shows the Group's equity price risk by location

Equity price risk by location	UK and Channel Islands £'000	Other Europe £'000	US and Canada £'000	Total £ 000
Group				
At 31 March 2012				
Equity investments	53512	54,431	601	108,544
At 31 March 2011				
Equity investments	54 023	59 563	2,537	116,123
Company				
At 31 March 2012				
Equity investments	52,104	54 431	601	107 136
At 31 March 2011				
Equity investments	52,190	58,743	2 537	113 470

The equity exposure to other Europe consists principally of minority investments held in other Rothschild Group companies

Notes to the Financial Statements

(forming part of the Financial Statements)

2. Financial Risk Management (continued)

2 3 Market risk (continued)

If the price of all the equities were to fall by 5 per cent, then for the Group there would be a post-tax charge to the income statement of £nil and a charge to equity of £4,125 000 (2011 £nil and £4,297,000 respectively), and for the Company there would be a post-tax charge to the income statement of £nil and a charge to equity of £4,071,000 (2011 £nil and £4 198 000 respectively) Similarly, if the price of all the equities and of those equities on which derivative instruments are dependent were to rise by 5 per cent, then for the Group there would be a post-tax credit to the income statement of £nil and a credit to equity of £4,125,000 (2011 £nil and £4,297,000 respectively), and for the Company there would be a post-tax credit to the income statement of £nil and a credit to the equity of £4,071,000 (2011 £nil and £4,198,000 respectively)

Currency risk

The table below summarises net exposure to foreign currency exchange rate risk measured by reference to the foreign currency exposures of monetary assets and liabilities after taking account of positions in derivatives

	Group Long/(Short)		Company Long/(Short)	
	2012 £ 000	2011 £ 000	2012 £'000	2011 £'000
US$	6 624	24 366	(587)	(22)
Euro	1,821	(1 049)	1 821	(1 314)
Other	6,233	10531	(1 515)	325

If the value of these currencies fell by 5 per cent against sterling, then for the Group there would be a post-tax charge to the income statement of £558 000 (2011 £1,252,000) and for the Company there would be a post-tax gain to the income statement of £11,000 (2011 £37,000)

If the value of these currencies rose by 5 per cent against sterling, then for the Group there would be a post-tax credit to the income statement of £558,000 (2011 £1,252,000) and for the Company there would be a post-tax charge to the income statement of £11,000 (2011 £37 000)

2. Financial Risk Management (continued)

2 3 Market risk (continued)

Interest rate risk

The following table 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 arose from the reinvestment of shareholders' funds

	Group			Company		
	£ £'000	Euro £ 000	US$ £'000	£ £'000	Euro £'000	US$ £ 000
At 31 March 2012						
1%	(673)	645	329	(483)	645	329
-1%	673	(653)	(333)	483	(653)	(333)
At 31 March 2011						
1%	(3 412)	1,717	407	(3 258)	1,717	407
-1%	3 460	(1 727)	(413)	3 306	(1,727)	(413)

2 4 Liquidity risk

Liquidity risk is defined as the risk that an entity cannot meet its cash obligations as they fall due Liquidity risk arises principally from the mismatch of contractual maturities of assets and liabilities inherent in the business, including contingent liabilities

The Group is subject to both an internal liquidity policy, which has been reviewed and approved by the Group Assets and Liabilities Committee and external regulatory requirements Liquidity is measured on a behaviourally adjusted basis and on a stressed basis. The stressed behaviour of assets and liabilities can, in certain scenarios, be more adverse than their contractual maturity (for example, loans advanced to customers may not be repaid on their contractual maturity dates)

Liquidity is monitored daily independently of the front office Treasury staff responsible for day-to-day liquidity management.

The Group measures its liquidity risk quantitatively against a Liquidity Coverage Ratio ("LCR") limit in line with the requirements of the FSA s liquidity regime The LCR considers the Group s eligible "Buffer assets against the cumulative net cash flows payable under its most severe stress test Only those assets of the highest quality can be treated as eligible for inclusion in the LCR

The Group's internal liquidity policy requires it to keep an LCR in excess of 100% at the 1-month time horizon At 31 March 2012 the LCR was significantly in excess of this internal as well as FSA regulatory requirements

The tables below analyse the Group's financial assets and liabilities based on contractual maturity

Notes to the Financial Statements

(forming part of the Financial Statements)

2. Financial Risk Management (continued)

2.4 Liquidity risk (continued)

Group	Demand/ next day £'000	2 days -3m £'000	3m-1yr £'000	> 1yr £'000	No fixed maturity £'000	Total £'000
At 31 March 2012						
Cash and balances at central banks	543,038	–	–	–	–	543,038
Loans and advances to banks	110,330	41,400	652	3,891	–	156,273
Derivatives	1,369	1,227	3,878	18,643	–	25,117
Loans and advances to customers	34,520	202,031	198,866	412,058	(29,811)	817,664
Available-for sale financial assets	–	121,211	871	142,051	108,544	372,677
Other	1,793	100,687	1,613	72	–	104,165
Total	**691,050**	**466,556**	**205,880**	**576,715**	**78,733**	**2,018,934**
Deposits by banks	160,787	8,516	8,836	–	–	178,139
Customer deposits	74,640	213,078	90,347	707,767	–	1,085,832
Derivatives	–	1,258	614	2,494	–	4,366
Debt securities in issue	83,365	58,355	–	–	–	141,720
Other	1,634	11,292	–	–	–	12,926
Total	**320,426**	**292,499**	**99,797**	**710,261**	**–**	**1,422,983**
At 31 March 2011						
Cash and balances at central banks	646,535	–	–	–	–	646,535
Loans and advances to banks	126,740	243,656	752	3,918	–	375,066
Derivatives	8	5,998	6,954	4,184	–	17,144
Loans and advances to customers	29,423	87,824	270,626	523,021	(29,788)	881,106
Available-for-sale financial assets	5,002	122,833	194,653	137,046	116,123	575,657
Other	–	94,081	13,790	–	–	107,871
Total	**807,708**	**554,392**	**486,775**	**668,169**	**86,335**	**2,603,379**
Deposits by banks	159,338	5,000	4,175	7,849	–	176,362
Repurchase agreements	–	41,708	–	–	–	41,708
Customer deposits	137,978	165,380	529,076	402,866	–	1,235,300
Derivatives	13	2,439	2,524	9,599	–	14,575
Debt securities in issue	–	–	310,449	150,302	–	460,751
Other	–	54,503	–	–	–	54,503
Total	**297,329**	**269,030**	**846,224**	**570,616**	**–**	**1,983,199**

Notes to the Financial Statements

(forming part of the Financial Statements)

2. Financial Risk Management (continued)

2.4 Liquidity risk (continued)

Company	Demand/ next day £'000	2 days -3m £'000	3m-1yr £'000	> 1yr £'000	No fixed maturity £'000	Total £'000
At 31 March 2012						
Cash and balances at central banks	543,025	–	–	–	–	543 025
Loans and advances to banks	58,488	33 346	–	–	–	91 834
Derivatives	1,369	1 227	3 878	18 643	–	25 117
Loans and advances to customers	34 520	187 322	176 545	415,099	(28 806)	784,680
Available-for-sale financial assets	–	121 211	871	141,926	107 136	371,144
Other	1,667	77,367	–	–	–	79 034
Total	**639,069**	**420,473**	**181,294**	**575,668**	**78 330**	**1 894,834**
Deposits by banks	160,787	8 516	8 836	–	–	178 139
Customer deposits	90,799	271 433	90 346	707 767	–	1 160 345
Derivatives	–	1,258	614	2 494	–	4,366
Debt securities in issue	83 365	–	–	–	–	83 365
Other	1,634	11 235	–	–	–	12 869
Total	**336 585**	**292,442**	**99,796**	**710,261**	**–**	**1,439,084**
At 31 March 2011						
Cash and balances at central banks	646 523	–	–	–	–	646 523
Loans and advances to banks	82,823	209 534	–	–	–	292 357
Derivatives	8	5 998	6 954	4,184	–	17 144
Loans and advances to customers	29 571	74 992	243,578	528 120	(28 806)	847,455
Available-for-sale financial assets	5,002	122 833	194 653	137,046	113 470	573 004
Other	–	85 171	–	–	–	85 171
Total	**763,927**	**498 528**	**445 185**	**669,350**	**84,664**	**2,461,654**
Deposits by banks	159 171	5 000	4,175	7 849	–	176,195
Repurchase agreements	–	41 708	–	–	–	41 708
Customer deposits	151,897	165 377	834 523	464 755	–	1,616 552
Derivatives	13	2 419	2,507	9 599	–	14 538
Debt securities in issue	–	–	5 000	88 413	–	93 413
Other	–	54 446	–	–	–	54,446
Total	**311,081**	**268 950**	**846,205**	**570,616**	**–**	**1,996,852**

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 undiscounted contractual cash flows, including interest, payable by the Group and the Company on financial liabilities, analysed by remaining contractual maturity at the balance sheet date Loan commitments and guarantees are included at the earliest date they can be drawn down or called upon This table does not reflect the liquidity position of the Group or Company

Group	Demand/ next day £ 000	2 days -3m £'000	3m-1yr £ 000	1yr-5yr £'000	> 5yr £'000	Total £'000
At 31 March 2012						
Deposits by banks	160 800	8 574	9 149	92	–	178,615
Customer deposits	74 891	219 924	106 930	729 278	40 322	1 171 345
Debt securities in issue	86 120	58,612	–	–	–	144,732
Other liabilities	1,634	11,292	–	–	–	12,926
Total	**323,445**	**298,402**	**116 079**	**729 370**	**40,322**	**1,507,618**
Loan commitments and guarantees	–	**56 753**	–	–	–	**56,753**
At 31 March 2011						
Deposits by banks	159,339	5 035	4,223	7 947	–	176,544
Repurchase agreements	–	41 755	–	–	–	41 755
Customer deposits	138 272	173 513	551 602	417,830	33,739	1 314 956
Debt securities in issue	–	1 058	311,567	154 310	–	466,935
Other liabilities	–	54,503	–	–	–	54 503
Total	**297,611**	**275,864**	**867,392**	**580,087**	**33,739**	**2 054,693**
Loan commitments and guarantees	–	**33,498**	–	–	–	**33,498**

Company						
At 31 March 2012						
Deposits by banks	160 800	8 574	9 149	92	–	178 615
Customer deposits	91,070	278 536	106,930	729 278	40,322	1,246,136
Debt securities in issue	86 120	–	–	–	–	86,120
Other liabilities	1,634	11,235	–	–	–	12,869
Total	**339,624**	**298,345**	**116 079**	**729,370**	**40,322**	**1,523,740**
Loan commitments and guarantees	–	**254,408**	–	–	–	**254 408**
At 31 March 2011						
Deposits by banks	159 172	5 035	4 223	7 947	–	176,377
Repurchase agreements	–	41,755	–	–	–	41 755
Customer deposits	152,196	174 568	858 108	480 822	33 739	1 699 433
Debt securities in issue	–	–	5 060	91,319	–	96,379
Other liabilities	–	54 446	–	–	–	54,446
Total	**311,368**	**275,804**	**867,391**	**580,088**	**33,739**	**2 068,390**
Loan commitments and guarantees	–	**564 041**	–	–	–	**564 041**

Notes to the Financial Statements

(forming part of the Financial Statements)

2. Financial Risk Management (continued)

2 6 Capital management

The Company's capital management policy is to ensure that it is strongly capitalised and compliant with regulatory requirements

The Company's regulator is the FSA who sets and monitors capital requirements for UK regulated financial institutions A firm's minimum regulatory capital is derived from a combination of the requirements from Pillar 1 and Pillar 2 rules Pillar 1 sets out the minimum capital requirements required to meet credit, market and operational risk. Pillar 2 lays down a supervisory review process to evaluate an institution's own internal process to assess its own capital needs including capital for risks not covered by Pillar 1 The credit risk capital requirement that the Company, and certain other subsidiaries which are part of its solo-consolidated group, are required to hold is largely determined by their balance sheets and off-balance sheet positions weighted according to the credit rating and type of exposure to counterparties Processes are in place to ensure compliance with the minimum capital requirements set by the FSA

An annual Internal Capital Adequacy Assessment Process ("ICAAP") which is subject to FSA review, is also undertaken to review the risks and capital requirements of the business The Group's risk management processes are designed to ensure that all risks are identified and that they are covered by capital or other appropriate measures

The table below summarises the composition of regulatory capital for the solo-consolidated group at 31 March, as reported to the FSA

	2012 £m	2011 £m
Tier 1 capital		
Called up share capital	57 7	57 7
Share premium account	97 9	97 9
Retained earnings and other reserves	224 8	259 0
Pension fund valuation adjustment	29 6	59 4
Deductions from tier 1 capital	(4 7)	(4 8)
Total tier 1 capital	**405 3**	**469 2**
Tier 2 capital		
Perpetual subordinated notes	124 3	124 3
Collective provisions	29 7	29 8
Other items	0 3	5 1
Deductions from tier 2 capital	–	(6 3)
Total tier 2 capital	**154 3**	**152 9**
Total tier 1 & 2 capital	**559 6**	**622 1**
Deductions from total of tier 1 and tier 2 capital*	(164 4)	(168 0)
Capital Resources	**395 2**	**454 1**

* Deductions from total tier 1 and tier 2 capital arise from equity or loan investments in/to subsidiaries or other related parties

Notes to the Financial Statements

(forming part of the Financial Statements)

3. Fair Value of Financial Assets and Liabilities

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 judgements made on the choice of valuation model used and the assumptions made concerning factors such as the amounts and timing of future cashflows 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** The fair values of these instruments are materially the same as their carrying values due to their short term nature
- **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 values of these instruments are determined by discounting the future cashflows at market interest rates adjusted for the appropriate credit spread
- **Debt securities in issue** 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
- **Derivatives and available-for-sale financial assets** 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

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

Financial assets and liabilities carried at amortised cost

Group	Carrying value 2012 £'000	Fair value 2012 £ 000	Carrying value 2011 £'00	Fair value 2011 £'00
Financial assets				
Loans and advances to customers	812,667	759 193	881 106	799 134
Financial liabilities				
Deposits by banks	178,139	178 139	176362	176,362
Repurchase agreements	–	–	41 708	41 708
Due to customers	1 085 832	1 092,585	1 235 300	1 240 826
Debt securities in issue	141,720	141 734	460751	459 847
Other financial liabilities	7,612	7612	54,503	54 503

Company				
Financial assets				
Loans and advances to customers	779 683	727 834	847,455	765 483
Financial liabilities				
Deposits by banks	178 139	178,139	176 195	176,195
Repurchase agreements	–	–	41 708	41,708
Due to customers	1 160,345	1,167 098	1,616 552	1 622 078
Debt securities in issue	83,365	83 379	93 413	93 415

Financial assets and liabilities carried at fair value

Group	Carrying value equal to fair value £'000	Measured using Level 1 £'000	Level 2 £'000	Level 3 £'000
At 31 March 2012				
Financial assets				
Financial assets held for trading	7 069	47	7 022	–
Financial assets held for risk management purposes	23 045	–	23 045	–
Available-for-sale financial assets	372,677	239 098	52,155	81,424
Total	**402,791**	**239,145**	**82,222**	**81 424**
Financial liabilities				
Financial liabilities held for trading	2,220	–	2,220	–
Financial liabilities held for risk management purposes	2 146	–	2 146	–
Other financial liabilities	5 314	–	5 314	–
Total	**9,680**	–	**9,680**	–

Notes to the Financial Statements

(forming part of the Financial Statements)

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

	Carrying value equal to fair value £'000	Measured using Level 1 £'000	Level 2 £'000	Level 3 £'000
At 31 March 2011				
Financial assets				
Financial assets held for trading	3 549	17	3 532	–
Financial assets held for risk management purposes	13,595	–	13,595	–
Available-for sale financial assets	575,657	424 759	70 449	80 449
Total	**592,801**	**424,776**	**87,576**	**80,449**
Financial liabilities				
Financial liabilities held for trading	2 798	–	2,798	–
Financial liabilities held for risk management purposes	11 777	–	11,777	–
Total	**14 575**	–	**14 575**	–

	Carrying value equal to fair value £'000	Measured using Level 1 £'000	Level 2 £'000	Level 3 £'000
Company				
At 31 March 2012				
Financial assets				
Financial assets held for trading	7 069	47	7 022	–
Financial assets held for risk management purposes	23 045	–	23,045	–
Available-for-sale financial assets	371,144	237 565	52,155	81 424
Total	**401 258**	**237,612**	**82,222**	**81 424**
Financial liabilities				
Financial liabilities held for trading	2 220	–	2 220	–
Financial liabilities held for risk management purposes	2 146	–	2 146	–
Total	**4 366**	–	**4,366**	–
At 31 March 2011				
Financial assets				
Financial assets held for trading	3 549	17	3 532	–
Financial assets held for risk management purposes	13,595	–	13 595	–
Available-for-sale financial assets	573 004	422,106	70 449	80,449
Total	**590,148**	**422,123**	**87,576**	**80,449**
Financial liabilities				
Financial liabilities held for trading	2 798	–	2 798	–
Financial liabilities held for risk management purposes	11 740	–	11 740	–
Total	**14 538**	–	**14 538**	–

Notes to the Financial Statements

(forming part of the Financial Statements)

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

Level 1 Quoted prices (unadjusted) in active markets for identical assets or liabilities

Level 2 Inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (ie as prices) or indirectly (ie derived from market data to a significant extent) An example would be an instrument valued using a price/earnings multiple of a comparable quoted company

Level 3 Inputs for the asset or liability that are not based primarily on observable market data (unobservable inputs) Typically this will be used for instruments with uncertain cashflows and the valuation will therefore depend upon the expected cashflows, estimated maturity and the discount factor used

Assets measured at fair value based on Level 3

There were no significant transfers between assets valued at Level 1 and at Level 2 in the year The movements in assets valued using Level 3 valuation are as follows

Group and Company

Available-for-sale financial assets	2012 £'000	2011 £ 000
At 1 April	80,449	77,946
Total gains and (losses)		
– in income statement	(196)	(85)
– through other comprehensive income	1,202	2 505
Settlements	(119)	(202)
Exchange movements	88	285
At 31 March	81,424	80,449

Total losses of £196,000 (2011 £85 000) were included in the income statement in respect of assets held at the end of the reporting period

A sensitivity analysis has been performed on the cashflows of the assets valued with a Level 3 methodology These have been flexed to assume that either 10 per cent more or 10 per cent less cash is uniformly received over the life of the investment The effect that these variations would have on the fair value of the assets is summarised below

Group and Company	2012 £'000	2011 £ 000
Current fair value	81 424	80 449
Cashflow +10% addition to fair value	8 143	8 043
Cashflow -10% reduction in fair value	8 143	8 043

Notes to the Financial Statements

(forming part of the Financial Statements)

4. Net Interest Income

	2012 £'000	2011 £'000
Interest and similar income		
Loans and advances	71,800	74 694
Available for sale financial assets	4 544	7 578
Other	10	5
	76 354	**82,277**
Interest expense and similar charges		
Amounts due to banks and customers	47 131	53,165
Debt securities in issue	11 827	10 792
	58,958	**63,957**

Included within interest income is £5,083,000 (2011 £3,802,000) in respect of interest income accrued on impaired financial assets.

5. Net Fee and Commission Income

	2012 £'000	2011 £'000
Fee and commission income		
Banking and credit-related fees and commissions	3 332	3,381
Fees for advisory work and other services	335,215	371 070
Other fees	16 444	9 667
	354 991	**384,118**
Fee and commission expense		
Global financial advisory fees payable	22,497	24,563
Other fees payable	454	213
	22,951	**24,776**

Global financial advisory fees payable 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

Notes to the Financial Statements

(forming part of the Financial Statements)

6. Net Trading Income

	2012 £'000	2011 £'000
Foreign exchange gains	1,362	1 717
Interest rate instruments – trading	334	56
Interest rate instruments – hedging	(219)	(90)
Fair value movements	1 478	397
Equities	3	136
	2,958	2,216

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

Fair value movements represent the changes in the fair value of synthetic CDO investments attributable to embedded credit derivatives

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

7. Other Operating Income

	2012 £'000	2011 £'000
Operating lease income	6 992	7 055
Rental income	105	4,750
Dividend income	1,800	1 724
Gain on disposal of fixed assets	130	563
Profit on disposal of subsidiaries	546	–
Gains less losses from available-for sale financial assets	2 510	(107)
Other	7 856	2,627
	19,939	16,612

Notes to the Financial Statements

(forming part of the Financial Statements)

8. Operating Expenses

	Note	2012 £'000	2011 £'000
Staff costs	9	251,942	274752
Administrative expenses		68 371	69 193
		320,313	343,945

The auditor's remuneration was as follows

	2012 £'000	2011 £'000
Audit fees relating to the Company	241	235
Audit fees relating to subsidiary undertakings	557	526
	798	761

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

	2012 £'000	2011 £'000
Non audit services pursuant to legislation including interim reviews	43	43
Tax services	90	176
Accounting advice	65	32
Other work	11	–
	209	251

9. Staff Costs

	Note	2012 Group £'000	2012 Company £'000	2011 Group £'000	2011 Company £'000
Salaries (excluding profit share)		106 503	62,225	95 910	55 847
Social security costs		12,072	7,558	9 772	6,415
Staff benefits and other staff costs		23 904	16,269	16 268	12,240
Pension costs					
– Defined benefit plans	23	2 636	2,487	2,681	2,530
– Defined contribution plans	23	4 094	2,059	4,467	2,735
Post-retirement benefits		943	928	877	862
Staff costs (excluding profit share)		**150,152**	**91,526**	**129,975**	**80,629**
Directors and employees annual profit share		82,912	46,254	123,033	71 075
Long term profit share schemes		18 878	18,497	21,744	21,306
Directors and employees' profit share		**101,790**	**64,751**	**144,777**	**92,381**
Total staff costs		**251,942**	**156 277**	**274,752**	**173,010**

Notes to the Financial Statements

(forming part of the Financial Statements)

9. Staff Costs (continued)

The number of persons employed as at 31 March was as follows

	2012 Group	2012 Company	2011 Group	2011 Company
Global Financial Advisory	677	390	748	435
Banking	209	52	221	60
Support and other	239	239	216	216
	1,125	681	1,185	711

The average number of persons employed during the year ended 31 March was as follows

	2012 Group	2012 Company	2011 Group	2011 Company
Global Financial Advisory	718	412	747	434
Banking	219	54	218	59
Support and other	233	233	220	220
	1,170	699	1,185	713

Long term incentive schemes

As part of its variable pay strategy, the Group operates long term incentive schemes for the benefit of employees These schemes consist of deferred cash bonuses and, for certain key staff, deferred bonuses based on the share value of Rothschild Continuation Holdings AG (RCH '), a parent of the Company

The cash awards are paid one, two and three years after the year of the award, and the expense is recognised over the two, three and four year periods from the start of the year of the award to the date of payment.These awards are paid on the condition that the recipient is still an employee of the Group

For certain key staff in positions of control within the Company, the deferred award is partly based on the future value of a fixed number of RCH shares The objective is to link their reward with the performance of the Group In addition to the requirement to remain employed by the Group, these awards may also be cancelled if

- There is reasonable evidence of employee misbehaviour or material error, or
- The Company, or the relevant business unit, suffers a material downturn in financial performance, or
- The Company, or the relevant business unit, suffers a material failure of risk management, or
- Reasonable evidence comes to light which calls into question the basis on which the original award was made

Deferred pay based on the value of RCH shares is accounted for as a cash-settled share based payment award The fair value of the shares awarded as at 31 March 2012 was £2,810 000 and the value of this is being spread over the service period using the same principles as the other deferred awards and is booked in the income statement as part of the charge for long term profit share

RCH shares are not quoted, but their value is determined each six months by an independent valuation

A commitment to employees exists in connection to deferred remuneration Some of this has not yet been accrued because it relates to future service period The amount of potential future payments that have not yet accrued is £15,227,000

Notes to the Financial Statements

(forming part of the Financial Statements)

10. Tax

Tax charged to the income statement

	2012 £'000	2011 £'000
Current tax		
– Current period	5 136	4 507
– Prior year adjustments	(1 652)	(647)
Total current tax charge	3,484	3,860
Deferred tax		
– Origination and reversal of timing differences	8 206	10 966
– Prior year adjustments	(1 399)	767
Total deferred tax charge	6,807	11,733
Total tax charged to income statement	10,291	15 593

Tax on items (credited)/charged to other comprehensive income

	2012 £'000	2011 £ 000
Deferred tax on available-for sale financial assets	(151)	3 249
Current tax on available-for-sale financial assets	(967)	8 655
Deferred tax on cash flow hedges	508	658
Deferred tax on actuarial gains and losses on defined benefit pension schemes	(12,359)	10 241
Total tax (credited)/charged to other comprehensive income	(12,969)	22,803

Tax on items credited to equity

	2012 £ 000	2011 £ 000
Current tax on distributions to holders of perpetual instruments	3,165	3 311

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

	2012 £ 000	2011 £ 000
Profit before tax	34,922	45,855
Tax calculated at the UK corporation tax rate of 26% (2011 28%)	9 080	12 839
Adjustment to tax charge in respect of prior years	(3 051)	120
Income from associate recorded net of tax in profit before tax	(567)	(244)
Non tax deductible expenses	1 032	1 085
Impact on deferred tax of corporation tax rate change	2,514	2,022
Effect of different tax rates in other countries	1 111	(862)
Income not subject to tax	(486)	(589)
Previously unrecorded deferred tax now recognised	812	352
Other	(154)	870
Total tax charged to income statement	10,291	15,593

Further information about deferred tax is presented in note 22

Notes to the Financial Statements

(forming part of the Financial Statements)

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

£10,092,000 (2011 £21,922,000) of the Group profit attributable to ordinary shareholders has been dealt with in the accounts of the Company As permitted by Section 408 of the Companies Act 2006, the income statement of the Company has not been presented separately

12. Loans and Advances

	2012 Group £'000	2012 Company £'000	2011 Group £'000	2011 Company £'000
Loans and advances to banks				
Included in cash and cash equivalents*	151 730	91,834	370,397	292,357
Other	4 543	–	4 669	–
	156,273	91,834	375,066	292,357

*Loans and advances to banks includes reverse repurchase agreements of £75,029 000 (2011 £nil)

	2012 Group £'000	2012 Company £'000	2011 Group £'000	2011 Company £'000
Loans and advances to customers				
Loans and advances to customers – at amortised cost	888,471	852 244	950 144	913 424
Loans and advances to customers held for trading – at fair value	4,997	4 997	–	–
Allowance for credit losses	(75 804)	(72,561)	(69 038)	(65 969)
	817,664	784,680	881,106	847,455

Loans and advances to customers include finance lease receivables as follows

Group	2012 £'000	2011 £'000
Gross investment in finance leases, receivable		
1 year or less	52,861	44 026
5 years or less but over 1 year	81,499	66 668
Over 5 years	3,828	1,206
	138 188	111,900
Unearned future finance income on finance leases	(22,399)	(18 228)
Net investment in finance leases	115 789	93,672

The net investment in finance leases may be analysed as follows

Group	2012 £'000	2011 £'000
1 year or less	44 287	36 874
5 years or less but over 1 year	68,101	55 691
Over 5 years	3,401	1 107
	115,789	93,672

Notes to the Financial Statements

(forming part of the Financial Statements)

12. Loans and Advances (continued)

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

	Group			Company		
	Specific £'000	Collective £'000	Total £'000	Specific £'000	Collective £'000	Total £'000
At 1 April 2011	**39,250**	**29 788**	**69,038**	**37,163**	**28 806**	**65,969**
Charge to income statement	11,425	23	11 448	13761	–	13761
Amounts written off	(7,203)	–	(7 203)	(6 866)	–	(6 866)
Recoveries	3,218	–	3,218	394	–	394
Exchange movements	(697)	–	(697)	(697)	–	(697)
At 31 March 2012	**45,993**	**29,811**	**75 804**	**43,755**	**28,806**	**72,561**
At 1 April 2010	**55,740**	**34,418**	**90 158**	**52,206**	**33,806**	**86 012**
Charge/(credit) to income statement	3 454	(4,630)	(1 176)	5,387	(5,000)	387
Amounts written off	(22,872)	–	(22,872)	(20,300)	–	(20 300)
Recoveries	3,129	–	3 129	71	–	71
Exchange movements	(201)	–	(201)	(201)	–	(201)
At 31 March 2011	**39,250**	**29,788**	**69 038**	**37,163**	**28 806**	**65 969**

Following the amendments to IAS 39 and IFRS 7,"Reclassification of Financial Assets" on 1 July 2008 the Company transferred from available-for-sale financial assets to loans and advances those financial assets to which the definition of loans and advances would apply on the reclassification date On the reclassification date and on 31 March 2012 the Group had the financial capacity to keep the loans concerned to their maturity date or for the foreseeable future The movements in the carrying value and fair value of the financial assets reclassified are as follows

Group and Company	2012 £ 000	2011 £'000
Carrying value of assets reclassified at 1 April	**216,921**	**268,726**
Impairments after reclassification	(3,675)	(2,912)
Sale and redemptions	(53 605)	(54 159)
(Repayment)/drawdown of revolving credit facilities	(1 553)	743
Amortisation of frozen available-for-sale reserve	5 037	5 987
Exchange and other movements	(7 373)	(1 464)
Carrying value of assets reclassified at 31 March	**155,752**	**216,921**

12. Loans and Advances (continued)

Group and Company	2012 £'000	2011 £'000
Fair value of assets reclassified at 1 April	212 466	249,699
Sale and redemptions	(53 605)	(50 615)
(Repayment)/drawdown of revolving credit facilities	(1,553)	743
Fair value movements in the period	(1 829)	14 132
Exchange and other movements	(7 361)	(1,493)
Fair value of assets reclassified at 31 March	**148,118**	**212 466**

As of the reclassification date, the net effective interest rates, after associated funding costs, on reclassified financial assets was 2 25 per cent

A revaluation gain of £1,846 000 would have been recognised in other comprehensive income in the year to 31 March 2012 had the assets not been reclassified (2011 revaluation gain of £20,404,000)

After reclassification the reclassified financial assets contributed the following amounts after associated funding costs, to profit before tax

	2012 £ 000	2011 £ 000
Net interest income	2 188	3 077
Impairment losses	(3 675)	(2 912)
Loss on disposals	(275)	(1 674)
Loss before tax on reclassified financial assets	**(1,762)**	**(1 509)**

13. Available-For-Sale Financial Assets

	2012 Group £'000	2012 Company £'000	2011 Group £'000	2011 Company £'000
Debt securities	275,024	274 899	488 578	488 578
Allowance for impairment	(10 891)	(10 891)	(29,044)	(29 044)
Total debt securities – at fair value	**264,133**	**264,008**	**459,534**	**459 534**
Equity securities	111,911	110 403	119 566	116 813
Allowance for impairment	(3,367)	(3 267)	(3 443)	(3 343)
Total equity securities – at fair value	**108,544**	**107,136**	**116,123**	**113,470**
Total available-for-sale financial assets	**372,677**	**371,144**	**575,657**	**573,004**

Notes to the Financial Statements

(forming part of the Financial Statements)

13. Available-For-Sale Financial Assets (continued)

	2012 Group £'000	2012 Company £'000	2011 Group £'000	2011 Company £'000
Available-for-sale financial assets may be analysed as follows				
Debt securities				
– Listed	263 449	263,449	412,455	412,455
– Unlisted	684	559	47,079	47079
Total debt securities	**264,133**	**264,008**	**459 534**	**459,534**
Equity securities				
– Listed	26,729	25 513	33 684	31,223
– Unlisted	81 815	81 623	82,439	82 247
Total equity securities	**108,544**	**107,136**	**116,123**	**113,470**
Total available-for-sale financial assets	**372,677**	**371,144**	**575,657**	**573,004**

Available-for-sale debt securities of £32,311,000 (2011 £79,159,000) were pledged as security for liabilities of the Company

Equity securities include shares in Paris Orléans SA, Third New Court Limited and Rothschild Holding AG, fellow subsidiaries of Rothschild Concordia SAS

The movement in the impairment allowance for available-for-sale financial assets is as follows

	2012 Group £'000	2012 Company £'000	2011 Group £'000	2011 Company £'000
Debt securities				
At 1 April	**29,044**	**29,044**	**26,433**	**26 433**
Charge to income statement	1 322	1 322	2,866	2,866
Amounts written off	(18 956)	(18,956)	–	–
Exchange movements	(519)	(519)	(255)	(255)
At 31 March	**10 891**	**10,891**	**29,044**	**29 044**
Equity securities				
At 1 April	**3,443**	**3,343**	**2,953**	**2,853**
Charge to income statement	–	–	500	500
Exchange movements	(76)	(76)	(10)	(10)
At 31 March	**3 367**	**3,267**	**3,443**	**3,343**

Notes to the Financial Statements

(forming part of the Financial Statements)

13. Available-For-Sale Financial Assets (continued)

	2012 Group £'000	2012 Company £'000	2011 Group £'000	2011 Company £'000
At 1 April	575,657	573 004	760,813	758,951
Additions	282,186	282 054	357 534	356 906
Disposals (sales and redemptions)	(454,160)	(453 340)	(556 867)	(556 866)
(Losses)/gains from changes in fair value	(16 576)	(16 151)	30,588	30 424
Movement in allowance for impairment	(727)	(727)	(3,101)	(3 101)
Unwinding of discount	(6 157)	(6,157)	(6 673)	(6,673)
Exchange differences	(7 546)	(7,539)	(6 637)	(6,637)
At 31 March	**372,677**	**371,144**	**575,657**	**573,004**

14. Derivatives

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, 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 cashflows will be settled on a net basis Changes in replacement values of derivative instruments are recognised in trading income unless they qualify as cash flow 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 cashflows 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 hedging or trading purposes. 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 Trading involves taking positions with the intention of profiting from changes in market variables such as interest rates

Notes to the Financial Statements

(forming part of the Financial Statements)

14. Derivatives (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 2012 was £16,334,000 (2011 loss of £2 060 000) Fair value gains of £16,833,000 (2011 losses of £6,484,000) on derivatives held in qualifying fair value hedging relationships are included in net trading income Fair value losses of £17,052,000 (2011 gains of £6,394 000), which relate to changes in fair value of hedged items attributable to the hedged risk, are also included in net trading income

Cash Flow 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 other comprehensive income Gains or losses on any ineffective portion of these swaps are recognised immediately in the income statement

No profit or loss was recognised in the income statement in respect of the ineffective portion of cash flow hedges (2011 £0)

The fair value of derivatives designated as cash flow hedges at 31 March 2012 was £4 565,000 (2011 gain of £3,904,000) At 31 March 2012 an unrecognised fair value gain of £2,655,000 (2011 gain of £499 000) associated with these derivatives has remained deferred in shareholders' equity and will be transferred to the income statement when the hedged cashflows affect profit or loss Amounts relating to cash flow hedges transferred to the income statement during the period are included in net trading income

The schedule of cash flows hedged is as follows

Group and Company	< 1 yr £'000	1-3 yrs £'000	3-5 yrs £'000	5-10 yrs £'000	> 10 yrs £'000
As at 31 March 2012					
Cash inflows (assets)	827	139	–	–	–
As at 31 March 2011					
Cash inflows (assets)	1,390	3 107	–	–	–

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(forming part of the Financial Statements)

14. Derivatives (continued)

	Notional principal		Positive fair value		Negative fair value	
	2012 £'000	2011 £'000	2012 £'000	2011 £'000	2012 £'000	2011 £'000
Group						
Contracts held for risk management purposes						
Derivatives designated as hedges						
Fair value interest rate swaps	821 733	1 152,006	18,480	9 675	(2 146)	(11 735)
Cash flow interest rate swaps	175,000	191 937	4 565	3,909	–	(5)
Other derivatives held for risk management purposes						
Interest rate swaps	–	10,000	–	–	–	(37)
OTC interest rate options	11 671	12,378	–	11	–	–
	1,008,404	**1 366,321**	**23,045**	**13,595**	**(2,146)**	**(11,777)**
Contracts held for trading purposes						
Forward foreign exchange contracts	414 356	144,606	997	2 100	(1 191)	(1 795)
Interest rate swaps	26 912	25 388	1,028	1,035	(1 029)	(1 003)
Exchange traded interest rate futures	5 629	5 604	47	17	–	–
Other	–	4 421	–	397	–	–
	446 897	**180,019**	**2 072**	**3,549**	**(2 220)**	**(2 798)**
	1,455,301	**1 546,340**	**25,117**	**17,144**	**(4,366)**	**(14,575)**
Company						
Contracts held for risk management purposes						
Derivatives designated as hedges						
Fair value interest rate swaps	821,733	1 152,006	18,480	9 675	(2,146)	(11 735)
Cash flow interest rate swaps	175 000	191 937	4,565	3 909	–	(5)
Other derivatives held for risk management purposes						
OTC interest rate options	11 671	12,378	–	11	–	–
	1 008 404	**1,356,321**	**23,045**	**13 595**	**(2,146)**	**(11 740)**
Contracts held for trading purposes						
Forward foreign exchange contracts	414,356	144,606	997	2 100	(1,191)	(1 795)
Interest rate swaps	26 912	25,388	1 028	1 035	(1 029)	(1 003)
Exchange traded interest rate futures	5,629	5,604	47	17	–	–
Other	–	4,421	–	397	–	–
	446,897	**180,019**	**2,072**	**3 549**	**(2 220)**	**(2,798)**
	1,455,301	**1,536,340**	**25,117**	**17,144**	**(4,366)**	**(14,538)**

Notes to the Financial Statements

(forming part of the Financial Statements)

15. Other Assets

	2012 Group £'000	2012 Company £'000	2011 Group £'000	2011 Company £'000
Accounts receivable and prepayments	113,206	84,901	116,349	89,039
Accrued income	23,300	14,298	24,282	15,475
Other	8,775	5,095	11,066	7,485
	145,281	104,294	151,697	111,999

Accounts receivable are net of allowances of £3,420,000 (2011 £3,306,000)

16. Investments in Associates

Group	2012 £'000	2011 £'000
At 1 April	40,121	37,763
Additions	906	2,043
Disposals	(3,503)	(527)
Share of results (net of tax)	3,514	1,920
Gains from changes in fair value	711	–
Dividends	(2,509)	(1,496)
Exchange differences	(730)	418
At 31 March	38,510	40,121

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

Group's share of	2012 £'000	2011 £'000
Assets	120,286	112,136
Liabilities	81,776	72,015
Revenues	25,120	27,996
Results (net of tax)	3,514	1,920

The Company holds a 9.38 per cent interest in Rothschild & Cie Banque, a French limited partnership, in which the Company exercises a significant influence, which carries out banking activities in France

The Company also holds a 50.0 per cent interest in Quintus European Mezzanine Fund Limited Partnership, a Jersey limited partnership that is an investment vehicle for institutional investors Substantive 'kick out" rights granted to other interest holders mean overall control of the fund does not rest with the Company and the investment continues to be classified as an investment in an associate

The Group's interests in associates are held by the Company at historical cost of £36,611,000 (2011 £39,208,000)

Notes to the Financial Statements

(forming part of the Financial Statements)

17. Investments in Joint Ventures

The Group 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 financial 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

	2012 £'000	2011 £ 000
Current assets	7 881	10 983
Current liabilities	4 252	5 794
Income	5,415	6,490
Expenses	7,008	7 965

18. Intangible Assets

Group	Goodwill £ 000	Other intangible assets £'000	Total £ 000
Cost at 1 April 2011	14,778	1 000	15,778
Acquisition of subsidiary undertaking	–	8 154	8 154
At 31 March 2012	**14,778**	**9,154**	**23 932**
Accumulated amortisation at 1 April 2011	–	875	875
Amortisation charge	–	426	426
At 31 March 2012	**–**	**1,301**	**1 301**
Net book value at 31 March 2012	**14 778**	**7,853**	**22,631**
Cost at 1 April 2010	14 478	1,000	15 478
Additions	300	–	300
At 31 March 2011	**14,778**	**1 000**	**15,778**
Accumulated amortisation at 1 April 2010	–	775	775
Amortisation charge	–	100	100
At 31 March 2011	**–**	**875**	**875**
Net book value at 31 March 2011	**14 778**	**125**	**14,903**

Included within goodwill as at 31 March 2012 is £9,786,000 (2011 £9,786 000) relating to the purchase of Lanebridge Investment Management Limited in the year ended 31 March 2008 In assessing impairment of goodwill, the Group has used the latest forecasts of Lanebridge Investment Management Limited for the periods to March 2017 A discount rate of 10 per cent (2011 10 per cent) was applied to the forecast cashflows The results of the sensitivity analysis performed during the course of the review, which includes assumptions regarding the timing and value of property sales, have provided sufficient assurance that the goodwill is not impaired The remainder of goodwill relates to various acquisitions within the Five Arrows Leasing Group

During the year, the Group acquired the entire capital of Elgin Capital LLP, a company that provides investment management services for various investment funds The present value of the future servicing rights has been recognised at acquisition and will be amortised over the servicing period as the fees from servicing are recognised

Notes to the Financial Statements

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19. Property, Plant and Equipment

Group	Leasehold improvements £'000	Cars, fixtures and fittings £'000	Computer equipment £'000	Total £'000
Cost at 1 April 2011	29,682	24 521	25 092	79 295
Additions	27,830	3 492	8,544	39 866
Disposals	(7 179)	(8 923)	(421)	(16 523)
Exchange differences	(141)	(139)	(101)	(381)
At 31 March 2012	**50,192**	**18 951**	**33,114**	**102,257**
Accumulated depreciation at 1 April 2011	10 631	14,184	22,751	47 566
Disposals	(7,179)	(8 012)	(418)	(15 609)
Depreciation charge	2 792	2 990	1,634	7 416
Exchange differences	(97)	(84)	(71)	(252)
At 31 March 2012	**6,147**	**9,078**	**23,896**	**39,121**
Net book value at 31 March 2012	**44,045**	**9 873**	**9,218**	**63 136**
Cost at 1 April 2010	16 222	22,923	24 802	63 947
Additions	13 436	3 700	1,642	18 778
Disposals	–	(2,250)	(1,365)	(3 615)
Acquisition of subsidiary undertakings	27	11	39	77
Exchange differences	(3)	137	(26)	108
At 31 March 2011	**29,682**	**24,521**	**25,092**	**79 295**
Accumulated depreciation at 1 April 2010	8 096	12 965	22,932	43 993
Disposals	–	(1,412)	(1 364)	(2 776)
Depreciation charge	2 516	2,599	1 205	6,320
Exchange differences	19	32	(22)	29
At 31 March 2011	**10,631**	**14 184**	**22,751**	**47,566**
Net book value at 31 March 2011	**19 051**	**10,337**	**2,341**	**31 729**

Included within the net book value of cars, fixtures and fittings for the Group as at 31 March 2012 is £5,266,000 (2011 £6,054,000) relating to assets leased to customers under operating leases

Notes to the Financial Statements

(forming part of the Financial Statements)

19. Property, Plant and Equipment (continued)

Company	Leasehold improvements £'000	Cars fixtures and fittings £'000	Computer equipment £ 000	Total £ 000
Cost at 1 April 2011	26 451	6 328	20217	52,996
Additions	27 809	290	7,806	35 905
Disposals	(7 179)	(5,410)	(239)	(12 828)
At 31 March 2012	**47 081**	**1 208**	**27 784**	**76,073**
Accumulated depreciation at 1 April 2011	8 831	6 054	18840	33 725
Disposals	(7 179)	(5 410)	(239)	(12 828)
Depreciation charge	2 377	191	1,046	3,614
At 31 March 2012	**4,029**	**835**	**19 647**	**24,511**
Net book value at 31 March 2012	**43 052**	**373**	**8 137**	**51,562**
Cost at 1 April 2010	13 538	6218	19882	39 638
Additions	12913	110	1 248	14271
Disposals	–	–	(913)	(913)
At 31 March 2011	**26,451**	**6,328**	**20,217**	**52 996**
Accumulated depreciation at 1 April 2010	6,767	5,931	19,153	31 851
Disposals	–	–	(911)	(911)
Depreciation charge	2 064	123	598	2,785
At 31 March 2011	**8,831**	**6,054**	**18,840**	**33 725**
Net book value at 31 March 2011	**17,620**	**274**	**1,377**	**19 271**

20. Debt Securities in Issue

	2012 Group £'000	2012 Company £'000	2011 Group £'000	2011 Company £'000
Medium term floating rate notes	58 355	–	367 338	–
Certificates of deposit in issue	83,365	83,365	93,413	93 413
	141,720	83,365	460,751	93 413

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 a residual maturity of less than 1 month as at 31 March 2012 (2011 between 6 months and 1 year 1 month) Certificates of deposit issued by the Company had residual maturity dates of less than 1 month as at 31 March 2012 (2011 1 year 1 month) and are issued at a fixed rate of interest

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21. Other Liabilities

	Note	2012 Group £'000	2012 Company £'000	2011 Group £'000	2011 Company £'000
Accounts payable		12926	12,869	54,503	54446
Defined benefit pension liabilities	23	98585	97,341	50,841	49,588
Other liabilities		27599	1,800	23,664	5,777
		139,110	112,010	129,008	109811

22. Deferred Income Taxes

Deferred taxes are calculated on all temporary differences under the liability method using an effective tax rate of 24 per cent (2011 26 per cent)

The movement on the deferred tax account is as follows

	2012 Group £'000	2012 Company £'000	2011 Group £'000	2011 Company £'000
At 1 April	**85,971**	**72,625**	**111,773**	**99,191**
Recognised in income				
Income statement (charge)/credit	(6807)	(3,802)	(11733)	(12407)
Recognised in other comprehensive income				
Defined benefit pension arrangements	12,359	12,450	(10,241)	(10267)
Available-for-sale securities				
– Fair value measurement	151	17	(3,249)	(3,234)
Cash flow hedges				
– Fair value measurement	(508)	(508)	(658)	(658)
Exchange differences	(95)	–	283	–
Other	7143	7,358	(204)	–
At 31 March	**98,214**	**88,140**	**85,971**	**72,625**

Deferred tax assets are attributable to the following items

	2012 Group £'000	2012 Company £'000	2011 Group £'000	2011 Company £'000
Accelerated tax depreciation	10,311	6137	10,037	5011
Deferred profit share arrangements	29,340	24,312	33,137	25,383
Pension and other post-retirement benefits	23889	23889	14,169	14,034
Available-for-sale securities	17,605	17,884	17,292	17705
Tax losses	15525	14922	8368	8,368
Other temporary differences	1544	996	2,968	2,124
	98,214	**88140**	**85,971**	**72625**

22. Deferred Income Taxes (continued)

The deferred tax (charge)/credit in the income statement comprises the following temporary differences

	2012 Group £'000	2012 Company £'000	2011 Group £'000	2011 Company £'000
Accelerated tax depreciation	274	1,126	(80)	316
Deferred profit share arrangements	(3,220)	(1,071)	(12,421)	(13,575)
Available-for-sale securities	162	162	183	183
Pensions and other post-retirement benefits	(2,595)	(2,595)	(1,911)	(1,925)
Tax losses	(804)	(804)	3,269	3,289
Other temporary differences	(624)	(620)	(773)	(695)
	(6,807)	(3,802)	(11,733)	(12,407)

Deductible temporary differences relating to unutilised tax losses within the Group for which no deferred tax asset has been recognised are £nil (2011 £465,000)

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 anticipated that such profits would qualify for exemption from UK taxation The amount of witholding taxes that would be payable should the retained earnings be remitted would be £411,000 (2011 £209,000)

23. 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 comprehensive income

The latest formal actuarial valuation of the Fund was carried out as at 31 March 2010 and has been updated for IAS 19 purposes to 31 March 2012 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

In July 2010 the UK Government announced its intention that future statutory minimum pension indexation would be measured by the Consumer Prices Index Deferred pensions will therefore also be indexed up to retirement in line with the Consumer Prices Index in future This has been reflected in the Company's assumptions and a gain of £14 million was recognised in the year to 31 March 2011 as a result, included in "Actuarial (gains)/losses" in the figures below

The Company had previously augmented certain early retirement benefits but this has ceased following recent changes to pensions tax relief in the UK The effect of this change was included as a £2 5 million credit to the income statement in the year to 31 March 2011 as a past service cost

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23. Retirement Benefit Obligations (continued)

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

Group and Company	2012	2011	2010
Discount rate	4 80%	5 50%	5 60%
Retail price inflation	3 30%	3 50%	3 70%
Consumer price inflation	2 30%	2.80%	n/a
Expected rate of salary increases	4 30%	4 50%	4 70%
Expected rate of increase in pensions in payment			
Capped at 5 0% per annum	3 20%	3 40%	3 60%
Capped at 2 5% per annum	2 20%	2 30%	2 40%
Life expectancy of a pensioner aged 60			
Male	27 8	27 8	27 3
Female	28 5	28 4	29 1
Life expectancy of a future pensioner aged 60 in 20 years time			
Male	29 4	29 3	29 4
Female	29 3	29 2	30 4

Movement in defined benefit obligation

	2012 Group £000	2012 Company £'000	2011 Group £000	2011 Company £'000
At 1 April	507 149	505,896	511,578	509,876
Current service cost (net of contributions paid by other plan participants)	3,020	2,871	4 043	3,952
Current service cost relating to other plan participants	1 652	1,652	930	930
Interest cost	27,384	27,384	28,288	28,228
Actuarial losses/(gains)	55,824	55,823	(19,331)	(19 422)
Benefits paid	(19 751)	(19 551)	(15 632)	(15,155)
Past service costs	195	195	(2 513)	(2 513)
Exchange differences	41	–	(214)	–
At 31 March	575,514	574,270	507,149	505,896

Movement in plan assets

	2012 Group £'000	2012 Company £'000	2011 Group £'000	2011 Company £'000
At 1 April	456,308	456,308	422,803	422,803
Expected return on plan assets	27,963	27 963	27,137	27 137
Actual less expected return on assets	(6 399)	(6 399)	8 373	8 373
Contributions by the Group	17,156	16,956	12,220	12,220
Contributions by other plan participants	1 652	1 652	930	930
Benefits paid	(19 751)	(19,551)	(15 155)	(15 155)
At 31 March	476 929	476,929	456,308	456,308

23. Retirement Benefit Obligations (continued)

At 31 March, the fair value of plan assets comprised

Group and Company	2012 £000	2011 £'000
Equities	162,086	184 145
Bonds	70515	72 844
Gilts and cash	111 289	96838
Property	1989	1,961
Hedge funds	45965	36,089
PFI private equity and infrastructure	85085	64,431
	476,929	**456,308**

The expected return on assets for the financial year ended 31 March 2012 was 6 4 per cent p a. (2011 6 8 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 £21 6 million (2011 £35 5 million)

Amounts recognised in income statement.

	Note	2012 Group £'000	2012 Company £'000	2011 Group £'000	2011 Company £'000
Current service cost		3020	2871	4043	3,952
Interest cost		27384	27384	28,288	28 228
Expected return on plan assets		(27963)	(27963)	(27,137)	(27 137)
Past service costs		195	195	(2513)	(2513)
Total (included in staff costs)	9	**2636**	**2,487**	**2,681**	**2,530**

Amounts recognised in the balance sheet for current and previous four periods are as follows.

	2012 £000	2011 £'000	2010 £000	2009 £000	2008 £'000
Group					
Present value of fund obligations	572052	503,906	507808	351751	415210
Fair value of plan assets	(476929)	(456,308)	(422,803)	(328,807)	(422,764)
	95,123	**47,598**	**85,005**	**22,944**	**(7,554)**
Present value of unfunded obligations	3462	3243	3770	3,986	2,214
Balance sheet liability/(asset)	**98,585**	**50841**	**88,775**	**26,930**	**(5 340)**
Company					
Present value of fund obligations	572052	503906	507808	351751	415210
Fair value of plan assets	(476929)	(456,308)	(422,803)	(328 807)	(422,764)
	95 123	**47,598**	**85 005**	**22944**	**(7,554)**
Present value of unfunded obligations	2218	1,990	2,068	1902	2,214
Balance sheet liability/(asset)	**97,341**	**49,588**	**87073**	**24846**	**(5,340)**

23. Retirement Benefit Obligations (continued)

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

	2012 £'000	2011 £'000	2010 £'000	2009 £'000	2008 £'000
Group					
Actual less expected return on assets	(6 399)	8,373	69,327	(113,472)	(33 138)
Experience gains and losses arising on liabilities	(7 537)	(6 034)	2,362	444	(2,982)
Company					
Actual less expected return on assets	(6,399)	8 373	69,327	(113 472)	(33 138)
Experience gains and losses arising on liabilities	(7,537)	(6 034)	2,362	444	(2 982)

Amounts recognised in the statement of comprehensive income

	2012 Group £'000	2012 Company £'000	2011 Group £ 000	2011 Company £'000
Actuarial (losses)/gains recognised in the year	(62 224)	(62,222)	27 704	27 795
Cumulative actuarial losses recognised in the statement of comprehensive income	(162,965)	(162 985)	(100 741)	(100 763)

It is estimated that total contributions of £15 7 million will be paid to the Fund in the year ending 31 March 2013, of which it is estimated that the Company will pay £14 2 million

The highest paid director was not a member of the defined benefit pension scheme

Defined contribution schemes

	Note	2012 Group £'000	2012 Company £'000	2011 Group £'000	2011 Company £'000
Contributions paid	9	4 094	2 059	4,467	2,735

These amounts represent contributions to the defined contribution section of the Fund and other defined contribution pension arrangements

Notes to the Financial Statements

(forming part of the Financial Statements)

24. Contingent Liabilities and Commitments

	2012 Group £'000	2012 Company £'000	2011 Group £'000	2011 Company £'000
Guarantees				
Guarantees and irrevocable letters of credit	8,913	192,316	9083	509 038
Commitments				
Undrawn formal standby facilities, credit lines and other commitments to lend	47,840	62 092	24,415	55 003

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 Groups financial position

Assets pledged

Group and Company	2012 £'000	2011 £'000
Investment securities	32,311	79 159

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

25. Operating Lease Commitments

At 31 March 2012, the Group was obligated under a number of non-cancellable operating leases for premises used primarily for business 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		Other	
Group	2012 £'000	2011 £'000	2012 £'000	2011 £'000
Up to 1 year	14 425	15 831	234	353
Between 1 and 5 years	53 246	52,271	303	208
More than 5 years	208,601	213 616	28	–
	276,272	**281,718**	**565**	**561**
Company				
Up to 1 year	10 187	10,996	–	–
Between 1 and 5 years	40 585	38,314	–	–
More than 5 years	197 398	199,815	–	–
	248,170	**249 125**	–	–

Operating expenses include operating lease rentals of £16,798,000 (2011 £13,781,000)

Notes to the Financial Statements

(forming part of the Financial Statements)

26. Distributions

	2012 £'000	2011 £'000
Other Equity Interests		
Perpetual floating rate subordinated loan (US$100 million)	575	570
Perpetual fixed rate subordinated loan (£75 million)	6 780	6,762
Perpetual floating rate subordinated notes (€150 million)	4 817	4,493
	12,172	11 825
Tax credit thereon	(3 165)	(3 311)
	9,007	8 514
Ordinary Shares		
Dividends paid	18 000	25 000
	27,007	33,514

The dividends per ordinary share were 31p (2011 43p)

27 Cash and Cash Equivalents

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

	2012 Group £'000	2012 Company £'000	2011 Group £ 000	2011 Company £'000
Cash and balances at central banks	543 038	543 025	646 535	646 523
Loans and advances to banks	151 730	91 834	370 397	292,357
	694,768	634,859	1,016,932	938,880

28. Transactions with Related Parties

Group

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

At 31 March	2012 £'000	2011 £'000
Loans	3	2
Deposits	1 404	908

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

Loans are made to directors for the purchase of travel season tickets and are provided on an interest-free basis Deposits are taken on normal commercial terms

Notes to the Financial Statements

(forming part of the Financial Statements)

28. Transactions with Related Parties (continued)

	2012 £'000	2011 £'000
Key management personnel compensation		
Short term employee benefits	5,739	8,224
Post-retirement benefits	1	20
Other long term employee benefits	2567	3,005

Amounts receivable from related parties of the Group are as follows

	2012		2011	
At 31 March	**Loans and advances £'000**	**Other assets £'000**	**Loans and advances £'000**	**Other assets £'000**
Amounts due from parent companies	37650	290	34318	605
Amounts due from joint ventures	21	204	–	–
Amounts due from associated undertakings	–	6976	–	9,566
Amounts due from other related parties	5,956	26908	6,766	22949

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

Amounts payable to related parties of the Group are as follows

	2012			2011		
At 31 March	**Deposits £'000**	**Perpetual instruments £'000**	**Other liabilities £'000**	**Deposits £'000**	**Perpetual instruments £'000**	**Other liabilities £'000**
Amounts due to parent companies	100	–	130	12,907	–	129
Amounts due to joint ventures	5087	–	–	7,543	–	–
Amounts due to associated undertakings	–	–	5464	–	–	9712
Amounts due to pension funds	1551	–	1	1,343	–	1
Amounts due to other related parties						
– subordinated	–	72610	–	–	72610	–
– other	218924	–	5002	194,127	–	2,672

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

Guarantees from related parties of the Group are as follows

At 31 March	2012 £'000	2011 £'000
Guarantees received from other related parties	54,672	54033

The Group has received guarantees from a fellow subsidiary of Rothschild Concordia SAS in respect of certain customer loans and available-for-sale securities

Notes to the Financial Statements

(forming part of the Financial Statements)

28. Transactions with Related Parties (continued)

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
2012						
Interest receivable	1 073	–	–	–	27	1 100
Interest payable	(39)	(28)	(35)	(11)	(1 261)	(1 374)
Fees and commissions receivable	5 000	–	7,800	–	3,062	15,862
Fees and commissions payable	–	(3 551)	(5,700)	–	(9,674)	(18,925)
Dividend income	706	–	2,509	–	1 058	4 273
Rent payable	–	–	–	–	(8 984)	(8 984)
Recoverable expenses	–	82	(217)	–	5 532	5 397
2011						
Interest receivable	938	–	–	–	39	977
Interest payable	(33)	(28)	–	(25)	(1 059)	(1 145)
Fees and commissions receivable	–	–	14,524	–	3,515	18 039
Fees and commissions payable	–	(4 600)	(6 937)	–	(9,805)	(21 342)
Dividend income	525	151	1 496	–	1 187	3 359
Rent payable	–	–	–	–	(7 167)	(7,167)
Recoverable expenses	–	–	(1,547)	–	3 528	1 981

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

Notes to the Financial Statements

(forming part of the Financial Statements)

28. Transactions with Related Parties (continued)

Company

Amounts receivable from related parties of the Company are as follows

At 31 March	2012 Loans and advances £'000	2012 Other assets £'000	2011 Loans and advances £'000	2011 Other assets £'000
Amounts due from parent companies	37,650	290	34,318	605
Amounts due from subsidiary undertakings	97 960	10 489	79,975	13 456
Amounts due from joint ventures	–	407	–	–
Amounts due from associated undertakings	–	3,075	–	4,130
Amounts due from other related parties	5 956	26,817	6,751	22 946

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

Amounts payable to related parties of the Company are as follows

At 31 March	2012 Deposits £'000	2012 Perpetual instruments £'000	2012 Other liabilities £'000	2011 Deposits £'000	2011 Perpetual instruments £'000	2011 Other liabilities £'000
Amounts due to parent companies	100	–	130	12,907	–	129
Amounts due to subsidiary undertakings						
– subordinated	–	51 725	–	–	51,725	–
– other	69,425	–	6 893	373 714	–	7,460
Amounts due to joint ventures	10 174	–	–	15 086	–	–
Amounts due to associated undertakings	–	–	1 609	–	–	3 506
Amounts due to pension funds	1,551	–	1	1,343	–	1
Amounts due to other related parties						
– subordinated	–	72 610	–	–	72 610	–
– other	218,924	–	3,770	194,127	–	2 672

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

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

At 31 March	2012 £'000	2011 £'000
Guarantees made on behalf of subsidiary undertakings	183 404	499,958
Guarantees received from other related parties	54 672	54 033

Notes to the Financial Statements

(forming part of the Financial Statements)

28. Transactions with Related Parties (continued)

Company (continued)

The Company has guaranteed £125,048,000 (2011 £132,620,000) of perpetual floating rate subordinated notes and £58,355,000 (2011 £367 338,000) 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 and available-for-sale securities

At 31 March	2012 £'000	2011 £'000
Undrawn credit commitments	14,252	30 588

Commitments provided to related parties of the Company are as follows

The Company has entered into a lease agreement with a fellow subsidiary of Rothschild Concordia SAS for the rental of office space The lease agreement expires in 2035 and is on normal commercial terms

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
2012							
Interest receivable	1 073	3,224	–	–	–	27	4 324
Interest payable	(39)	(3 392)	(55)	–	(11)	(1 261)	(4 758)
Fees and commissions receivable	5,000	736	–	1 021	–	3 062	9,819
Fees and commissions payable	–	(6 527)	(7 102)	(5,081)	–	(9 674)	(28,384)
Dividend income	706	18 300	–	2,509	–	1,058	22 573
Rent payable	–	–	–	–	–	(8 984)	(8 984)
Recoverable expenses	–	(3,451)	–	744	–	6,072	3,365
2011							
Interest receivable	938	3 131	–	–	–	39	4,108
Interest payable	(33)	(3,926)	(55)	–	(25)	(1 059)	(5,098)
Fees and commissions receivable	–	4 186	–	4 371	–	3 515	12,072
Fees and commissions payable	–	(10,284)	(9 200)	(4 092)	–	(9,805)	(33,381)
Dividend income	525	22,153	–	1 497	–	1,187	25 362
Rent payable	–	–	–	–	–	(7 167)	(7 167)
Recoverable expenses	–	(7,623)	–	–	–	3,528	(4,095)

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

Notes to the Financial Statements

(forming part of the Financial Statements)

29. Non-controlling Interests

	2012 £'000	2011 £'000
At 1 April	18,138	28,354
Profit attributable to non-controlling interests	6 892	4 592
Actuarial losses	(50)	(15)
Dividends	(5 269)	(13,810)
Exchange	(1,118)	(983)
At 31 March	18,593	18,138

30. Share Capital

	2012	2011
Authorised	199 900 000	199 900 000
Allotted called up and fully paid ordinary shares of £1 each	57 654,551	57 654 551

31. Perpetual Instruments

	2012 Group £'000	2012 Company £ 000	2011 Group £'000	2011 Group £'000
Perpetual Fixed Rate Subordinated Notes 9% (£75 million)	48 750	48,750	48,750	48 750
Perpetual Floating Rate Subordinated Notes (€150 million)	51 725	51,725	51,725	51 725
Perpetual Floating Rate Subordinated Notes (US$100 million)	23,860	23,860	23 860	23,860
At 31 March	124,335	124,335	124 335	124,335

Notes to the Financial Statements

(forming part of the Financial Statements)

32. 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 Leasing Group Limited (Lease portfolio management)		100
Five Arrows Leasing Limited (Asset finance)		100
State Securities Plc (Asset finance)		100
Specialist Fleet Services Finance Limited (Contract hire and maintenance)		100
Rothschilds Continuation Finance PLC (Finance company)		100
Lanebridge Investment Management Limited (Property investment management)		100
Elgin Capital LLP (Investment fund management services)		100
Rothschild Europe BV (Financial advisory company – incorporated in the Netherlands), which owns the following subsidiaries:		50
Rothschild GmbH (Financial advisory company – incorporated in Germany)	100	
Rothschild SpA (Financial advisory company – incorporated in Italy)	90	
RCF Polska sp. z.o.o (Financial advisory company – incorporated in Poland)	100	
Rothschild Portugal Limitada (Financial advisory company – incorporated in Portugal)	100	
RCF (Russia) BV (Financial advisory company – incorporated in Russia)	100	
Rothschild SA (Financial advisory company – incorporated in Spain)	98	
Rothschild (Middle East) Limited (Financial advisory company – incorporated in Dubai)	100	
Rothschild Australia Limited (Financial advisory company – incorporated in Australia)		100
Arrow Capital Limited (Investment holding company – incorporated in Australia)		100

The historical cost of the investments in subsidiary undertakings was £43 547 000 (2011 £43,547,000)

On 17 August 2011 the Group acquired Rothschild Credit Management Limited, Elgin Capital LLP and Elgin Capital Services Limited The acquisition was financed in part by cash consideration and in part by deferred and contingent consideration £1 65m of the consideration is deferred, payable in 4 instalments over a period of 20 months A maximum of £6 6m will be paid, being 50% of net subordinated fees earned post acquisition The total deferred and contingent consideration is discounted at the rate of 12%.

The acquisition had the following effect on the Groups assets and liabilities.

	£'000
Loans and advances to banks	695
Available-for sale financial assets	132
Debtors	98
Creditors	(298)
Intangible assets	8 154
Net assets acquired	**8 781**
Less: Contingent/deferred consideration	(6 433)
Cash outflow on acquisition	**2,348**

From the date of acquisition to 31 March 2012, the acquisition contributed £1,358,000 to operating income and £76,000 to profit before tax. If the acquisition had been made at the beginning of the financial year, £2,345,000 would have been contributed to operating income and £427,000 to profit before tax.

Notes to the Financial Statements

(forming part of the Financial Statements)

33. 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 Paris Orléans SA registered in France The accounts are available on Paris Orléans' web-site at www paris-orleans com

On 8 June 2012, Paris Orléans SA, a French public limited liability corporation, converted to Paris Orléans SCA, a French public limited partnership At the same time, Rothschild Concordia SAS ceased to control Paris Orléans From this date, both the largest and the smallest group in which the results of the Company are consolidated will be Paris Orléans SCA

34. Remuneration of Directors

	2012 £'000	2011 £'000
Directors emoluments	1,799	3 326
Amounts receivable under long term profit share schemes	422	642
	2,221	**3,968**
Pension contributions to money purchase schemes	–	18
	2,221	**3,986**

The emoluments of the highest paid director were £1,085,000 (2011 £1 537 000)

	2012	2011
Retirement benefits are accruing to the following number of directors under		
Money purchase schemes	–	–
Defined benefit schemes	–	1

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