

338694



**LEOPOLD JOSEPH**

PRIVATE BANKERS

**Leopold Joseph & Sons Limited**

**Annual Report & Accounts**

**2004**



Leopold Joseph & Sons Limited

Report and Accounts

31<sup>st</sup> March 2004

Company No: 338594

LEOPOLD JOSEPH & SONS LIMITED  
REGULATED BY THE FINANCIAL SERVICES AUTHORITY

31st MARCH 2004

DIRECTORS

Alan Thompson	Chairman	Appointed 13th May 2004
Graham Brooks ACIB	Deputy Chairman	Appointed 26th May 2004
Paul Turtle	Managing Director. Designate	Appointed 13th May 2004
Peter Bloom ACA		
Mark Boucher		
Simon Brooks		
Shane Chichester		
Peter Fletcher		
Michael Fornara		
Martin Henderson		Appointed 13th May 2004
Robin Herbert CBE		Resigned 2nd April 2004
Warwick Jones FCA		
Dr James King		Appointed 17th May 2004
Michael Ladenburg		
Rosemary Morgan MCIPD		
Richard Murkin ACIB		
Michael Quicke		
Patrick Smiley		
John Wright FIB		Appointed 13th May 2004

SECRETARY            Paul Thrussell ACIB

REGISTERED OFFICE    99 Gresham Street London EC2V 7NG  
Telephone: 020 7776 6700  
Facsimile 020 7776 6701  
Telex: 886454 - 5  
SWIFT : LJSOGB2L

AUDITORS            Deloitte & Touche LLP  
Chartered Accountants  
London

# LEOPOLD JOSEPH & SONS LIMITED

## DIRECTORS' REPORT

for the year end 31st March 2004

The directors submit their report and the accounts for the company for the year ended 31st March 2004.

### RESULTS AND DIVIDEND

The results for the year is as shown on page 4. The company's main activity during the year has been private banking. The principal place of business is London.

The directors are not recommending the payment of a final dividend for the year (2003: £950,000 (19.0p per share)). An interim dividend of £325,000 (6.5p per share); (2003: £350,000 (7.0p per share)) was paid during the year.

The retained profit for the year transferred to reserves amounted to £638,000 (2003: £37,000)

### REVIEW OF THE BUSINESS

The pre-tax profit for the bank for the year to 31 March 2004 was £963,000 compared to £1,337,000 for the previous year. Net interest income fell by 5.1% to £4,858,000 largely as a result of a slight reduction in loan balances. Repayments in April 2003 brought down the average size of the loan book during the year and total lending balances ended the year at £116m compared to £121m at the end of the previous March.

Margins on core lending came under pressure in line with market trends but were only slightly below last year at just under 2%.

Deposit customers continued to be attracted and customer balances increased by 8.6% to £251m at the end of March 2004 while margins were maintained.

Net fees and commissions increased in the year due to improved income from the investment management division. Better markets and increased funds under management from new money won contributed to a much better year than 2003. Total funds under management at the end of the year were £372m, compared with £307m at the end of the previous year.

Dealing profits were lower in the year partly as a result of an unusually large foreign exchange transaction in the previous year and the deliberate re-focussing of the treasury away from proprietary trading.

A larger dividend was paid up by the Guernsey subsidiary partly to fund the additional costs associated with the strategic review undertaken in the year which led to the sale of the group on 2 April.

Underlying costs after allowing for the review costs totalling £740,000 fell to £9,036,000 a reduction of 3.5%.

The balance sheet ratios remain strong. The risk asset ratio at the end of the year was 15.5% compared to 15.6% at the end of the previous year.

### DIRECTORS

Directors serving at the year end and their interests, including those of their families and trusts, in the ordinary shares and options of the company's ultimate holding company, Leopold Joseph Holdings PLC, as at 31<sup>st</sup> March 2004 and at 31st March 2003 (or date of appointment if later) were as follows:-

	31 March 2004	31 March 2004	31 March 2003	31 March 2003
	Shares	Options	Shares	Options
RAE Herbert	1,105,658	-	1,105,199	-
MF Quicke	79,377	110,160	78,531	110,160
DSS Chichester	1,751	68,000	979	68,000
M Fornara	-	50,000	-	50,000
WR Jones	282	50,000	-	50,000
PG Bloom	1,807	34,000	1,347	34,000
MA Boucher	8,718	28,000	2,073	34,000
SC Brooks	2,922	34,000	2,463	34,000
PW Fletcher	811	24,000	352	19,000
M Ladenburg	170	50,000	-	20,000
R Morgan	811	11,000	352	11,000
RA Murkin	2,589	34,000	1,976	34,000
PV Smiley	8,305	27,549	1,209	34,000

## LEOPOLD JOSEPH & SONS LIMITED

### DIRECTORS' REPORT (continued)

On 5<sup>th</sup> February 2004 a recommended cash offer for Leopold Joseph Holdings PLC was announced by ANZ Investment Bank on behalf of Bank of Butterfield (UK) PLC. As at 31<sup>st</sup> March 2004 all directors had accepted the offer in respect of their entire holdings of shares in Leopold Joseph Holdings PLC. The offer was declared unconditional in all respects on 2<sup>nd</sup> April 2004.

All the directors as shown above held office for the whole of the year under review except where indicated above.

On 26<sup>th</sup> March 2004, M Boucher exercised 6,000 share options at 428p per share and 680 shares at 635p per share.  
On 27<sup>th</sup> March 2004, P Smiley exercised 6,451 share options at 465p.

The offer by the Bank of Butterfield (UK) plc also triggered all other outstanding share options previously granted in accordance with the rules of the respective schemes. Where eligible, these options were all exercised on 23rd April 2004.

The recommended cash offer on behalf of Bank of Butterfield (UK) PLC was subsequently accepted in respect of the shares acquired following the exercise of all of these options.

The directors and their families and trusts had no direct interest in the shares of Leopold Joseph & Sons Ltd at 31<sup>st</sup> March 2003 and 31<sup>st</sup> March 2004. The company maintained directors' and officers' liability insurance during the year.

#### CREDITOR PAYMENT POLICY

The company does not intend to follow any published code or standard with respect to payment of trade creditors. However, it is the company's policy to accept or negotiate the payment terms extended by suppliers at the commencement of trade or on agreement of contractual terms if earlier. It is also company policy to abide by agreed terms of payment except in cases of supplier default or error. The company does not distinguish between classes of supplier for creditor payment policy purposes. The average number of creditor days is approximately 21 (2003– 21).

#### OTHER

During the year charitable donations amounted to £1,382 (2003 - £2,553). No political donations were made in the year (2003 - £Nil).

Changes in the fixed assets of the company are detailed in note 15 to the financial statements.

#### AUDITORS

On 1 August 2003, Deloitte & Touche, the Company's auditors transferred their business to Deloitte & Touche LLP, a limited liability partnership incorporated under the Limited Liability Partnership Act 2000. The Company's consent has been given, by way of a resolution dated 29<sup>th</sup> July 2003, to treating the appointment of Deloitte & Touche as extending to Deloitte & Touche LLP, with effect from 1st August 2003 under the provisions of the Companies Act 1989.

A resolution will be submitted to the forthcoming annual general meeting to appoint PricewaterhouseCoopers as auditors.

By order of the Board  
Paul Thrussell  
Secretary  
23rd June 2004



# LEOPOLD JOSEPH & SONS LIMITED

## PROFIT and LOSS ACCOUNT

for the year ended 31st March 2004

	Notes	2004 £000	2003 £000
Interest receivable:			
Interest receivable and similar income arising from debt securities		5,684	5,797
Other interest receivable and similar income		8,180	8,853
Less: interest payable		(9,006)	(9,532)
<b>Net Interest Income</b>		<b>4,858</b>	<b>5,118</b>
Dividends receivable		1,912	1,100
Fees and commissions receivable		4,068	3,823
Less: fees and commissions payable		(318)	(239)
Dealing profits		506	1,253
Other operating income		13	-
<b>Operating Income</b>	2	<b>11,039</b>	<b>11,055</b>
Administrative expenses	3	(8,453)	(8,794)
Costs associated with the sale of the holding company	3	(740)	-
Depreciation	15	(580)	(567)
Movement on provision for bad and doubtful debts	11	(3)	-
		<b>(9,776)</b>	<b>(9,361)</b>
<b>Profit on Ordinary Activities before Tax</b>	4	<b>1,263</b>	<b>1,694</b>
Tax on profit on ordinary activities	7	(300)	(357)
<b>Profit on Ordinary Activities after Tax</b>		<b>963</b>	<b>1,337</b>
Dividends - paid		(325)	(350)
- proposed		-	(950)
<b>Retained Profit for the Year</b>		<b>638</b>	<b>37</b>

There is no difference between the profit before tax and the retained profit shown above and their historical cost equivalents.

The notes on pages 7 to 27 form part of these financial statements.

# LEOPOLD JOSEPH & SONS LIMITED

## STATEMENT OF TOTAL RECOGNISED GAINS AND LOSSES *for the year ended 31st March 2004*

	2004 £000	2003 £000
Profit after tax for the year and total recognised gains and losses for the year	963	1,337
Total gains and losses recognised since last annual report	963	1,337

## STATEMENT OF MOVEMENT IN SHAREHOLDERS' FUNDS *for the year ended 31st March 2004*

	2004 £000	2003 £000
At 1st April 2003	20,311	20,274
Profit on ordinary activities after taxation	963	1,337
Dividends	(325)	(1,300)
At 31st March 2004	20,949	20,311

The notes on pages 7 to 27 form part of these accounts.

# LEOPOLD JOSEPH & SONS LIMITED

## BALANCE SHEET

at 31st March 2004

		2004	2003
	Notes	£000	£000
<b>Assets</b>			
Cash and balances at central banks		79	549
Loans and advances to banks	9	25,902	22,308
Loans and advances to customers	10	116,016	121,458
Debt securities	12	163,167	148,426
Equity shares	13	5	12
Investment in subsidiary undertakings	14	1,541	1,541
Tangible fixed assets	15	2,064	2,466
Other assets	16	3,342	1,706
Prepayments and accrued income		2,888	2,666
<b>Total assets</b>		<b>315,004</b>	<b>301,132</b>
<b>Liabilities</b>			
Deposits by banks	17	32,627	40,395
Customer accounts	18	251,344	231,531
Other liabilities	19	3,251	2,686
Accruals and deferred income		1,833	1,209
Subordinated dated loan capital	20	5,000	5,000
		<b>294,055</b>	<b>280,821</b>
Called up share capital	21	5,000	5,000
Share premium account	22	660	660
Capital Reserves	22	13,044	13,044
Profit and loss account	22	2,245	1,607
<b>Equity shareholders' funds</b>		<b>20,949</b>	<b>20,311</b>
<b>Total liabilities</b>		<b>315,004</b>	<b>301,132</b>
<b>Memorandum Items</b>			
Contingent liabilities:			
Guarantees and assets pledged as collateral security	23	741	557
Commitments:			
Other commitments	23	27,510	17,260

Approved by the Board on 23rd June 2004 and signed on its behalf by:

  
 Alan Thompson  
 Director

Paul Turtle  
 Director

The notes on pages 7 to 27 form part of these accounts.



## LEOPOLD JOSEPH & SONS LIMITED

### Notes to the Financial Statements for the year ended 31<sup>st</sup> March 2004

#### 1. Accounting Policies

##### **(a) Basis of presentation**

The accounts have been prepared under the historical cost convention modified by the inclusion of certain assets at valuation and in accordance with the special provisions of Part VII of the Companies Act 1985 relating to banks, applicable Accounting Standards in the UK and the Statements of Recommended Accounting Practices issued jointly by the British Bankers' Association and the Irish Bankers' Federation. The company is a wholly owned subsidiary undertaking of Leopold Joseph Holdings Public Limited Company and has taken advantage of the provisions of section 228 of the Companies Act 1985 exempting the company from the requirement to prepare consolidated financial statements. Under the provisions of Financial Reporting Standard 1 (revised) the company is not required to prepare its own cashflow statement.

##### **(b) Provisions for bad and doubtful debts**

Provisions for bad and doubtful debts are based on the year end appraisal of all loans and advances. Specific provisions are made in respect of identified impaired advances and consequently no general provisions are made. Interest of doubtful collectibility is excluded from the profit and loss account.

##### **(c) Shares in subsidiary undertakings**

Shares in group undertakings are stated at cost less provisions for permanent diminution in value.

##### **(d) Foreign currencies**

Monetary assets and liabilities denominated in foreign currencies have been translated into sterling at the spot rates ruling on the balance sheet date. Forward foreign exchange contracts have been valued at the appropriate forward rates. Gains and losses arising have been recognised in the profit and loss account.

##### **(e) Debt securities and equity shares**

Debt securities, equities and other assets intended for use on a continuing basis in the bank's activities are classified as fixed asset investment securities and are stated at cost less provision for any permanent impairment in value. They are adjusted for discount accretion or premium amortisation as appropriate. The accretion and amortisation of premiums or discounts is included in interest income.

Listed equities held for resale are stated at market value.

Unlisted equities are stated at directors' valuation.

##### **(f) Off balance sheet instruments**

Off balance sheet instruments held for hedging purposes are valued on a basis consistent with the accounting treatment of the underlying transactions. Otherwise they are marked to market.

Interest rate derivatives are accounted for by recording the net income or expense arising from each instrument.

## LEOPOLD JOSEPH & SONS LIMITED

### Notes to the Financial Statements for the year ended 31<sup>st</sup> March 2004

#### 1 Accounting Policies (continued)

##### (g) Depreciation

Leasehold improvements are depreciated on a straight line basis over the remaining period of the lease, which was approximately 11 years at the reporting date. Other tangible fixed assets are depreciated on a straight line basis over their estimated useful lives as follows:

Computer equipment and software	-	3 to 10 years
Furniture and other equipment	-	3 to 5 years

##### (h) Current and Deferred taxation

Provision is made for taxation at current rates on the taxable profits and relief for or deferral of overseas taxation is taken where appropriate. Deferred tax is provided in full on timing differences which result in an obligation at the balance sheet date to pay more tax, or a right to pay less tax, at a future date, at rates expected to apply when they crystallise based on current tax rates and law. Timing differences arise from the inclusion of items of income and expenditure in taxation computations in periods different from those which they are included in financial statements. Deferred tax is not provided on timing differences arising from the revaluation of fixed assets where there is not a commitment to sell the asset or on unremitted earnings of subsidiaries and associates where there is no commitment to remit these earnings. Deferred tax assets are not recognised to the extent that it is regarded as more likely than not that they will be recovered. Deferred tax assets and liabilities are not discounted.

##### (i) Pension costs

The company operates defined benefit and defined contribution pension schemes. The pension cost for the defined benefit scheme is charged to the profit and loss account so as to spread the cost of pensions over the expected service lives of scheme members and is determined by independent qualified actuaries undertaking formal actuarial valuations at least every three years. Contributions to defined contribution schemes are recognised in the profit and loss when payable.

##### (j) Operating leases

Operating lease rentals are charged to the profit and loss in equal amounts over the lease term.

##### (k) Income recognition

Interest receivable and interest payable are recognised on an accruals basis.

Dealing profits arise on foreign currency transactions and are recognised on a marked to market basis.

Loan related fees and investment commissions are credited to the profit and loss account when earned.

Investment management fees are recognised on an accruals basis.

Fees and commissions payable are recognised on an accruals basis and include charges for brokerage and custodian services.

##### (l) Related party transactions

The company is exempt under Financial Reporting Standard 8 from the disclosure of transactions with other group entities or investees of the group qualifying as related parties as the consolidated financial statements of Leopold Joseph Holdings PLC are publicly available.

# LEOPOLD JOSEPH & SONS LIMITED

## Notes to the Financial Statements for the year ended 31<sup>st</sup> March 2004

### 2 Segmental Information

All transactions are recorded in the United Kingdom.

#### Business classes

The bank has two business classes, banking and investment management. Banking provides a full range of private banking and treasury services to individuals and business customers. Investment management provides a range of investment management services to a similar client base.

	Banking		Investment Management		Central Services		Total	
	2004 £000	2003 £000	2004 £000	2003 £000	2004 £000	2003 £000	2004 £000	2003 £000
Operating income	6,082	7,189	3,045	2,766	1,912	1,100	11,039	11,055
Profit/(loss) on ordinary activities before taxation	1,828	3,154	723	217	(1,288)	(1,677)	1,263	1,694

Assets have not been allocated to business classes in view of the relatively immaterial net assets held in respect of investment management. Central services include the costs associated with sale of the holding company.

### 3 Administrative expenses

Staff costs (including directors):

	2004 £000	2003 £000
Wages and salaries	3,572	3,765
Social security costs	459	341
Other pension costs	366	371
Other administrative expenses	4,056	4,317
Costs associated with the sale of the holding company	740	-
	9,193	8,794

The average number of staff employed during the year by the company (including directors) was 76 (2003: 76).

Analysis by business class:

	2004 Number	2003 Number
Banking	56	58
Investment management	20	18

# LEOPOLD JOSEPH & SONS LIMITED

## Notes to the Financial Statements for the year ended 31<sup>st</sup> March 2004

	2004 £000	2003 £000
<b>4 Profit on Ordinary Activities Before Tax</b>		
Is stated after:		
(a) charges		
Subordinated loan interest	468	468
Company audit fees	80	70
Auditors' remuneration for non audit work	81	80
Operating lease rentals - office premises	497	497
<b>5 Directors' Emoluments:</b>	<b>2004 £000</b>	<b>2003 £000</b>
Emoluments of directors of the company		
Aggregate emoluments	2,216	1,684
Gains made on exercise of share options	65	62
Company pension contributions to money purchase schemes	46	40
Retirement benefits accrued to three directors (2003: three) under a money purchase scheme and to eight directors (2003: eight) under a defined benefit scheme during the year.		
<b>Details of the highest paid director:</b>		
Aggregate emoluments	408	198
Defined benefit pension scheme:		
Accrued pension at the end of the year	71	66

Certain directors have deposits with the company on normal commercial terms. Where directors have funds managed by the company, normal transaction fees are paid but management fees are reduced. Other banking and treasury transactions are conducted on an arm's length basis.

### 6 Pension Costs

The company operates a funded pension scheme in London providing defined benefits. The assets of the scheme are held separately from those of the company, being partly invested in units of an independently managed pension fund and partly managed by Leopold Joseph & Sons Limited. Contributions to the scheme are charged to the profit and loss account so as to spread the cost of the pensions across the expected working lives of the scheme members.

The contributions are determined by a qualified actuary on a basis of triennial valuations using the partly projected unit method, with a 20 year control period, and making allowances for new entrants. The most recent was as at 31st March 2001. The assumptions which have the most significant effect on the results of the valuation are those relating to the rate of return on investments and the rate of increase in pensionable salaries, which were 7.3% per annum and 5.0% per annum respectively. In calculating the discounted income value of assets, equity dividends were assumed to increase in the future at 4.5% per annum. At the valuation date, the actuarial value was sufficient to cover 91% (previously 96%) of the liabilities for pensioners, deferred pensions and in-service members based on the funding method employed. Following the valuation, it has been agreed that total contributions be paid at the rate of 19.5% (previously 19.2%) of pensionable salaries, inclusive of members' contributions, plus life assurance costs. The market value of the scheme assets at 1st April 2001 was £6,500,246 plus life assurance. The pension cost charged in respect of this scheme was £292,254 (2003: £323,938).

## LEOPOLD JOSEPH & SONS LIMITED

### Notes to the Financial Statements for the year ended 31<sup>st</sup> March 2004

#### 6 Pension Costs (continued)

Management fees and commissions charged by Leopold Joseph & Sons Limited to the Pension Scheme are at a reduced commercial rate. The actuarial and administrative costs of the scheme are paid for by the company.

The company also operates a defined contribution scheme.

#### **FRS17 Retirement Benefits**

The company operates a funded pension scheme in the United Kingdom. The scheme has both defined benefit and defined contribution sections although the defined contribution section is relatively small.

In November 2000 the Accounting Standards Board issued FRS 17 "Retirement Benefits" replacing SSAP 24 "Accounting for Pension Costs". Full implementation of FRS 17 has been delayed and a revised effective date has yet to be formalised by the Accounting Standards Board. However, certain disclosures are required in the transitional period, for periods ending on or after 22<sup>nd</sup> June 2001. These further disclosures are included below.

The pension cost that would have been charged to operating profits under FRS 17 for the year amounts to £374,000 (2003 -£362,000). This charge is equal to the service cost of £330,000 (2003 - £346,000) in respect of the defined benefit section of the scheme, plus contributions of £44,000 (2003 - £16,000) paid by the company in respect of the defined contribution section of the scheme. Except where stated otherwise, the remainder of the FRS 17 pension note relates only to the defined benefit section of the scheme.

A full actuarial valuation was carried out at 31 March 2001 and updated to 31 March 2004 by a qualified independent actuary.

The main assumptions used by the actuary were:

	At 31.03.04 (% p. a.)	At 31.03.03 (% p.a.)
Rate of increase in salaries	4.6%	4.1%
Rate of increase of LPI linked pensions in payment	3.1%	2.6%
Discount rate	5.5%	5.4%
Inflation assumption	3.1%	2.6%

The assumptions used by the actuary are best estimates chosen from a range of possible actuarial assumptions which, due to the timescale covered, may not necessarily be borne out in practice.

# LEOPOLD JOSEPH & SONS LIMITED

## Notes to the Financial Statements for the year ended 31<sup>st</sup> March 2004

### 6 Pension Costs (continued)

The fair value of the scheme's assets, which are not intended to be realised in the short term and may be subject to significant change before they are realised, and the present value of the scheme's liabilities, which are derived from cash flow projections over long periods and thus inherently uncertain, were:

	Long-term rate of return expected at 31.03.04	Fair value at 31.03.04 £000's	Long-term rate of return expected at 31.03.03	Fair value at 31.03.03 £000's
Equities & property	7.8%	4,394	7.5%	3,055
Fixed interest	5.3%	562	5.0%	631
Index-linked gilts	4.8%	1,703	4.5%	1,649
Cash and other	4.0%	471	3.8%	554
Defined contribution section	-	115	-	33
Total market value of assets		7,245		5,922
Present value of liabilities		(10,073)		(8,830)
(Deficit) in the scheme		(2,828)		(2,908)
Related deferred tax asset		848		872
Net pension (liability)		(1,980)		(2,036)

### Volatility of FRS 17

It should be noted that the methodology and assumptions prescribed for the purposes of FRS 17 mean that the disclosures will be inherently volatile, varying greatly according to investment market conditions at each accounting date.

### Movement in (deficit) during the year

	£000
(Deficit) in scheme at the beginning of the year	(2,908)
Movement in the year:	
Current service cost	(330)
Employer contributions	318
Past service costs	-
Other finance expense	(120)
Actuarial gain	212
(Deficit) in scheme at the end of the year	(2,828)

During the year, the company contributed at the rate of 15.6% of pensionable salaries.

Company contributions amounting to £Nil (2003: £Nil) were due to the scheme as at the year end. The current Schedule of Contributions requires the company to contribute at the rate of 15.6% of pensionable salaries.

# LEOPOLD JOSEPH & SONS LIMITED

## Notes to the Financial Statements for the year ended 31<sup>st</sup> March 2004

### 6 Pension Costs (continued)

If the FRS17 net deficit had been accounted for as a liability of the company in 2004, the charge to the company profit and loss account, the effect on the statement of total recognised gains and losses, and the movement on the pension scheme deficit would have been;

#### Year ended 31.03.2004

<u>Analysis of the amount charged to operating profit</u>	<b>2004</b> <b>£000</b>	<b>2003</b> <b>£000</b>
Current service cost	330	346
Past service cost	-	-
<b>Total operating charge (net of employee contributions)</b>	<b>330</b>	<b>346</b>

#### Analysis of the amount credited to other finance income

Expected return on plan assets	361	456
Interest on plan liabilities	(481)	(473)
<b>Net return</b>	<b>(120)</b>	<b>(17)</b>

#### Analysis of amount recognised in statement of total recognised gains and losses

Actual return less expected return	688	(1,300)
Experience gains and losses	(24)	3
Changes in assumptions	(452)	(465)
<b>Recognised actuarial gain / (loss)</b>	<b>212</b>	<b>(1,762)</b>

#### History of experience gains and losses

Difference between actual return and expected return on plan assets		
Amount	688	(1,300)
% of plan assets	9%	(22%)
Experience gains and losses on plan liabilities		
Amount	(24)	3
% of plan liabilities	(0%)	0%
Total amount recognised in statement of total recognised gains and losses		
Amount	212	(1,762)
% of plan liabilities	2%	(20%)

# LEOPOLD JOSEPH & SONS LIMITED

## Notes to the Financial Statements for the year ended 31<sup>st</sup> March 2004

### 7 Tax on Profit on Ordinary Activities

	2004 £000	2003 £000
Current tax:		
UK corporation tax at 30% (2003: 30%)	479	587
Overprovision in prior years	(23)	(21)
Double tax relief	(155)	(250)
Total current tax charge	301	316
Deferred Tax:		
Origination and reversal of timing differences	(1)	41
Adjustments to estimated recoverable deferred tax assets in previous periods	-	(10)
Adjustments in respects of prior years	-	10
Total deferred tax	(1)	41
	300	357
Factors affecting tax charge for period	2004 £000	2003 £000
Profit on ordinary activities before tax	1,263	1,694
Standard tax rate in UK of 30%	379	508
Effects of:		
Expenses not deductible for tax purposes	68	54
Capital allowances for period in excess of depreciation	1	(41)
Group relief	(14)	(7)
Underlying foreign tax credits	(109)	(175)
Other deferred tax movements	(1)	(2)
Adjustments to tax charge in relation to prior periods	(23)	(21)
	301	316
Provision for deferred tax:	2004 £000	2003 £000
Accelerated capital allowances	(1)	41
Discount	-	-
	(1)	41
Provision at start of period	53	12
Deferred tax charge in profit and loss account for period	(1)	41
Provision at end of period	52	53
Analysis of deferred tax balances:		
Capital allowances in excess of depreciation	52	53
Provision for deferred tax	52	53

A deferred tax asset has not been recognised in respect of timing differences relating to the deferred annuity scheme and capital losses as there is insufficient evidence that the asset will be recovered. The amount of the asset not recognised is £13,295 (2003: £nil). The asset would be recovered if capital gains were to be generated in future periods.



# LEOPOLD JOSEPH & SONS LIMITED

## Notes to the Financial Statements for the year ended 31<sup>st</sup> March 2004

### 8 Foreign Currency Assets and Liabilities

	2004 £000s	2003 £000s
Assets:		
Sterling denominated	290,334	278,145
Foreign currency denominated	24,670	22,987
Total Assets	315,004	301,132
Liabilities:		
Sterling denominated	289,348	281,195
Foreign currency denominated	25,656	19,937
Total liabilities	315,004	301,132

### 9 Loans and Advances to Banks

	2004 £000s	2003 £000s
Repayable on demand	25,902	19,996
Other loans and advances		
Remaining Maturity:		
- One year or less but over three months	-	-
- Three months or less	-	2,312
	25,902	22,308
Amounts include		
Due from subsidiary undertakings	1	44

None of the above loans are subordinated.

### 10 Loans and Advances to Customers

	2004 £000	2003 £000
Repayable on demand	108,615	112,931
Remaining maturity:		
- Over five years	-	-
- Five years or less but over one year	1,143	1,565
- One year or less but over three months	6,486	6,126
- Three months or less	-	1,061
Specific bad and doubtful debt provisions	(228)	(225)
	116,016	121,458
Included in the above are loans to other group undertakings	1,810	1,215

As at 31st March 2004, 63% (2003 - 66%) of the above loans are to individuals or companies in the property investment sector. The majority of these loans relate to property investments. Of the non-property investment sector loans, a significant number were secured on highly liquid assets.

# LEOPOLD JOSEPH & SONS LIMITED

## Notes to the Financial Statements for the year ended 31<sup>st</sup> March 2004

### 11 Provisions for Bad and Doubtful Debts

	2004 £000	2003 £000
At 1st April 2003	225	225
Movement	3	-
At 31st March 2004	228	225

Of the above specific provisions, £225,000 (2003:£225,000) relate to loans and advances to group undertakings.

### 12 Debt Securities

	2004 £000	2003 £000
<b>Issued by other issuers:</b>		
<i>Investment securities:</i>		
Bank and building society certificates of deposit	163,167	148,426
	<b>163,167</b>	<b>148,426</b>

Amounts include:

Due within one year	163,167	148,426
Due one year and over	-	-
	<b>163,167</b>	<b>148,426</b>

Unamortised (discounts) / premiums on investment securities	<b>(33)</b>	<b>26</b>
---	-------------	-----------

Investment securities	Cost £000	Discounts & premiums £000	Provisions £000	Carrying Value £000
As at 1 <sup>st</sup> April 2003	148,400	26	-	148,426
Acquisitions*	521,002	(19)	-	520,983
Disposals*	(506,202)	(40)	-	(506,242)
<b>At 31<sup>st</sup> March 2004</b>	<b>163,200</b>	<b>(33)</b>	<b>-</b>	<b>163,167</b>

\*The acquisitions and disposals disclosed above are principally of short-term certificates of deposit which are used for liquidity and hedging purposes. These instruments are generally held until maturity.

Listing Analysis	2004 £000	2003 £000
Listed in the UK	-	-
Unlisted	<b>163,167</b>	<b>148,426</b>
Market value of listed investments	-	-

## LEOPOLD JOSEPH & SONS LIMITED

### Notes to the Financial Statements for the year ended 31<sup>st</sup> March 2004

#### 13 Equity Shares

	Listed £000
Investment Securities	
At 1 <sup>st</sup> April 2003	12
Acquisitions	-
Disposals	(7)
Provisions	-
<b>At 31<sup>st</sup> March 2004</b>	<b>5</b>

The directors consider that the fair value of the equity investments is at least equal to cost.

#### 14 **Shares in Subsidiary Undertakings**

Incorporated in Great Britain, registered and operating in England and Wales unless otherwise stated

**Percentage of ordinary shares  
and voting rights held by the  
relevant parent company**

2004	2003
------	------

**Held by the company:**

Carlbrit Investments Limited ( <i>Investment dealing</i> )	100	100
Chandos Holdings Limited ( <i>Investment holding</i> )	100	100
Leojay Holdings Limited ( <i>Investment holding</i> )	100	100
Leopold Joseph Nominees Limited ( <i>Corporate trustee and nominee</i> )	100	100
Leopold Joseph Unit Trust Managers Limited ( <i>Unit Trust Manager</i> )	100	100

**Held by the company, Incorporated, registered and operating in Guernsey:**

Leopold Joseph (Guernsey) Limited ( <i>Holding company</i> )	100	100
--	-----	-----

**Held by Leopold Joseph (Guernsey) Limited Incorporated, registered and operating in Guernsey:**

Leopold Joseph & Sons (Guernsey) Limited <i>Private bank</i>	100	100
Leopold Joseph Trust Company (Guernsey) Limited <i>Corporate trustee</i>	100	100

**Held by Leopold Joseph (Guernsey) Limited ; Incorporated, registered and operating in the Commonwealth of the Bahamas:**

Leopold Joseph (Bahamas) Limited (Sold on 3 <sup>rd</sup> September 2003)	-	100
---	---	-----

**Held by Leopold Joseph & Sons (Guernsey) Limited . Incorporated, registered and operating in Guernsey:**

Leopold Joseph & Sons (Guernsey) Nominees Limited (Corporate trustee and nominee)	100	100
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Insignificant subsidiaries have been omitted from the list above to avoid a statement of excessive length.

The value of shares at cost of unlisted non-banking subsidiaries at 1st April 2003 and 31st March 2004 was £1,883,003 (2003: £1,883,003).

The value of shares at cost less any permanent diminution in value of subsidiary undertakings included in the balance sheet at 1st April 2003 and 31<sup>st</sup> March 2004 was £1,541,315 (2003: £1,541,315).

In the directors' opinion, the value of shares in subsidiary undertakings is not less than the amounts at which those assets are stated in the company's balance sheet.

# LEOPOLD JOSEPH & SONS LIMITED

## Notes to the Financial Statements for the year ended 31<sup>st</sup> March 2004

### 15 Tangible Fixed Assets

	Leasehold improvements £000	Computer equipment & software £000	Furniture & other equipment £000	Total £000
Cost at 1 <sup>st</sup> April 2003	722	3,310	499	4,531
Additions	-	165	13	178
Cost at 31 <sup>st</sup> March 2004	<b>722</b>	<b>3,475</b>	<b>512</b>	<b>4,709</b>
Depreciation 1 <sup>st</sup> April 2003	157	1,576	332	2,065
Charge for the year	46	437	97	580
Depreciation at 31 <sup>st</sup> March 2004	<b>203</b>	<b>2,013</b>	<b>429</b>	<b>2,645</b>
Net book value at 31 <sup>st</sup> March 2004	<b>519</b>	<b>1,462</b>	<b>83</b>	<b>2,064</b>
Net book value at 31 <sup>st</sup> March 2003	565	1,734	167	2,466

### 16 Other Assets

	2004 £000	2003 £000
Foreign exchange and interest rate contracts	1,891	854
Trade debtors	94	75
Other	120	77
Dividends Receivable	1,112	700
Settlement balances	125	-
	<b>3,342</b>	<b>1,706</b>

### 17 Deposits by Banks

	2004 £000	2003 £000
With agreed maturity or notice period, by remaining maturity:		
Five years or less but over 1 year	50	-
One year or less but over three months	12,700	10,810
Three months or less but not repayable on demand	8,178	8,750
Repayable on demand	11,699	20,835
	<b>32,627</b>	<b>40,395</b>

Amounts include:

Due to subsidiary undertakings	18,617	31,516
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# LEOPOLD JOSEPH & SONS LIMITED

## Notes to the Financial Statements for the year ended 31<sup>st</sup> March 2004

### 18 Customer Accounts

	2004 £000	2003 £000
With agreed maturity or notice period, by remaining maturity:		
Five years or less but over one year	5,498	-
One year or less but over three months	15,282	20,365
Three months or less but not repayable on demand	111,910	97,038
Repayable on demand	118,654	114,128
	<u>251,344</u>	<u>231,531</u>

Amounts include:

Due to subsidiary undertakings	1,104	1,104
--------------------------------	-------	-------

### 19 Other Liabilities

	2004 £000	2003 £000
Deferred liabilities	24	103
Foreign exchange and interest rate contracts	1,848	851
Trade Creditors	933	613
Taxation	238	116
Deferred taxation	52	53
Dividends Payable	-	950
Settlement balances	156	-
	<u>3,251</u>	<u>2,686</u>

Deferred liabilities are contracts where there is a liability to provide annual sums over varying periods of years.

### 20 Subordinated Dated Loan Capital

	2004 £000	2003 £000
Comprises £3,000,000 of loan capital from The Royal London Mutual Insurance Society Limited and £2,000,000 from Wesleyan Assurance Society. Subordinated to all other creditors of the company. The subordinated dated loans mature on 8 <sup>th</sup> February 2017 and are repayable between 2012 and 2017 at the option of the company. Interest is payable at a rate of 9.2885% until 2012 and 10.2885% thereafter by semi-annual interest payments on 8 February and 8 August each year.	5,000	5,000

# LEOPOLD JOSEPH & SONS LIMITED

## Notes to the Financial Statements for the year ended 31<sup>st</sup> March 2004

### 21 Called Up Share Capital

	2004 £000	2003 £000
Authorised, allotted, issued and fully paid: 5,000,000 Ordinary shares of £1 each		
At 1 <sup>st</sup> April 2003 and 31st March 2004	5,000	5,000

### 22 Reserves

	Share premium £000	Capital redemption £000	Capital reserve £000	Profit & loss £000
At 1st April 2003	660	200	12,844	1,607
Profit on ordinary activities after tax	-	-	-	963
Dividends	-	-	-	(325)
At 31st March 2004	660	200	12,844	2,245

### 23 Memorandum Items

	Principal Amount 2004 £000	Principal Amount 2003 £000
Contingent liabilities:		
Irrevocable letters of Credit	741	557
Commitments:		
Documentary credits and trade-related transactions	273	317
Undrawn facilities:		
Under one year	16,286	1,200
Over one year	10,951	15,743
	27,510	17,260

In the ordinary course of business, the company has custody of customers' securities and issue indemnities on behalf of customers who have lost certificates of title.

In addition to the items disclosed above, there are contingent liabilities arising in the ordinary course of the banking business.

The company has provided letters of comfort to regulatory authorities that a certain subsidiary undertaking will be adequately capitalised and that it will meet its contractual obligations. At 31<sup>st</sup> March 2004 the total maximum exposure was £124,000 (2003: £7,400,000) of which £120,000 (2003: £2,600,000) is cash collateralised.

## LEOPOLD JOSEPH & SONS LIMITED

### Notes to the Financial Statements for the year ended 31<sup>st</sup> March 2004

#### 24 Derivatives and other financial instruments

The disclosure in this note is required by FRS 13: "Derivatives and other financial instruments: disclosure". The objective of this FRS is to ensure that relevant companies provide in their accounts disclosures that enable users to assess their objectives, policies and strategies for holding or issuing financial instruments. In particular, the information is designed to enable users to assess:

- a) the risk profile for each of the main financial risks that arise in connection with financial instruments; and
- b) the significance of such instruments to the reported financial position, performance and cashflows regardless of whether the instruments are on balance sheet or off balance sheet.

#### **Review of the Bank's Risk Profile**

##### **Credit Risk**

Credit risk is the risk that a customer or counterparty will be unable or unwilling to meet a commitment that it has entered into with the bank. The bank manages its credit risk through a credit committee and seeks to optimise the use of credit availability whilst avoiding excessive risk concentration. Regular credit exposure reports are produced which include information on large credit exposures, asset concentration, industry and country exposures and levels of bad debt provisioning.

##### **Liquidity Risk**

Liquidity risk is the risk that the bank will encounter difficulty in realising assets or otherwise raising funds to meet its commitments as they fall due. The bank monitors expected cash outflow on a daily basis and has a policy to ensure liquidity by maintaining at all times sufficient high-quality liquid assets to cover the expected net cash outflows over the next calendar month. The residual maturity analysis of the assets and liabilities is disclosed in the respective notes to the balance sheet.

The customer deposit base represents a stable source of funding due to the number and diversity of depositors. Liquidity is further managed through dealings in the money markets. As at 31<sup>st</sup> March 2004 the bank had no deposits or money market liabilities due to mature in more than five years.

##### **Interest Rate Risk**

Exposure to interest rate risk is the risk that arises when there is an imbalance between the maturity dates of rate sensitive assets, liabilities and off-balance sheet items. The bank's policy is to maintain the interest rate risk at a controlled level with limits set by the board. Interest rate swaps and forward rate agreements are used to manage interest rate exposure. Free capital is invested in liquid fixed rate instruments which provide a secure base for the income of the bank and which are available to meet contingencies should they arise.

##### **Foreign Currency risk disclosures**

Foreign currency risk is the risk that the value of a financial instrument will fluctuate because of changes in foreign exchange rates. The bank's foreign exchange exposure arises from providing services to customers. Senior management receives daily reports on foreign currency exposures.

##### **Operational Risk**

Operational risk is the risk of economic loss from control failures or external events which result in unexpected or direct loss to the company.

## LEOPOLD JOSEPH & SONS LIMITED

### Notes to the Financial Statements for the year ended 31<sup>st</sup> March 2004

#### 24 Derivatives and other financial instruments (continued)

##### **Risk Management**

The company regards the monitoring and controlling of risk as a fundamental part of the management process and accordingly involves its most senior staff in developing risk policy and in monitoring its application. Market, credit and liquidity risks are inherent in the company's core business. The evaluation of these risks and setting of policies is carried out either through the board or through executive committees, notably the credit committee and the assets and liabilities committee. The credit committee covers counterparty or credit risk and the assets and liabilities committee covers liquidity and market risk. Operating risks and internal controls are monitored by the executive audit and compliance committee as well as by the holding company audit committee.

##### **Derivative Instruments**

Exchange rate contracts are used in order to satisfy customer requests for such instruments. It is the company's policy to lay off any significant positions arising in the institutional market.

Three classes of interest rate contract are used by the company in its business. Interest rate caps, swaps and forward rate agreements are sold to clients on request and positions arising are then covered in the institutional market. Interest rate swaps and forward rate agreements are also used to hedge the return arising from the capital of the bank.

The credit and market risks arising from the use of derivatives as described above are monitored by the credit and assets and liabilities committees. The company does not currently transact derivatives which require the use of collateral deposits, nor are positions netted when considering exposure and risk. There has been no change during the year to the company's objectives, policies or strategies with regard to derivatives and other financial instruments. Because Leopold Joseph is a private bank, most of the items in the balance sheet are financial instruments.

##### **Currency Risk Exposures**

The company does not have any structural currency exposures.

##### **Interest rate risk disclosures**

The company's business of banking is concerned with financial instruments, principally loans and deposits in various currencies but mainly in sterling. Interest rates applied to loans and deposits are normally variable at the discretion of the bank and linked to LIBOR or Base Rate. In order to prevent sudden falls in interest income, the group invests its free capital at fixed rates for periods on average of two to five years and normally uses the swap and forward rate agreement markets to effect this strategy. This turns a variable rate of interest into a fixed rate of interest on the bank's capital and reserves. Otherwise the use of derivative instruments is primarily customer driven. The year-end figures are representative of the development of the business during the year in pursuance of its stated objectives, policies and strategies.

Part of the company's return on financial instruments is obtained from the controlled mismatching of the dates on which the instruments mature or have their interest rates reset to market rates. The table below summarises these repricing mismatches. Items are allocated to time bands by reference to the earlier of the next contractual interest rate repricing date and the maturity date. The actual interest rate sensitivity will be determined by subsequent customer and management decisions.



# LEOPOLD JOSEPH & SONS LIMITED

## Notes to the Financial Statements for the year ended 31<sup>st</sup> March 2004

### 24 Derivatives and other financial instruments (continued)

2004	Not more than three months	More than three months but not more than six months	More than six months but not more than one year	More than one year but not more than three years	More than three years but not more than five years	More than five years	Non- interest bearing	Total
	£000	£000	£000	£000	£000	£000	£000	£000
<b>Assets:</b>								
Government securities	-	-	-	-	-	-	-	-
Loans and advances to banks	23,851	-	-	-	-	-	2,130	25,981
Loans and advances to customers	104,549	2,598	1,137	5,225	697	-	1,810	116,016
Debt securities and equity shares	121,785	36,382	5,000	-	-	-	5	163,172
Other assets	-	-	-	-	-	-	9,835	9,808
<b>Total assets</b>	<b>250,185</b>	<b>38,980</b>	<b>6,137</b>	<b>5,225</b>	<b>697</b>	<b>-</b>	<b>13,780</b>	<b>315,004</b>
<b>Liabilities:</b>								
Deposits by banks	23,698	2,700	5,000	50	-	-	1,179	32,627
Customer accounts	241,219	2,932	1,695	5,498	-	-	-	251,344
Other liabilities	-	-	-	-	-	-	5,084	5,084
Loan capital & other subordinated liabilities	-	-	-	-	-	5,000	-	5,000
Minority interests and shareholders' funds	-	-	-	-	-	-	20,949	20,949
<b>Total liabilities</b>	<b>264,917</b>	<b>5,632</b>	<b>6,695</b>	<b>5,548</b>	<b>-</b>	<b>5,000</b>	<b>27,212</b>	<b>315,004</b>
Off balance sheet items	(1,600)	(22,000)	-	24,700	(5,500)	4,400	-	-
<b>Interest rate sensitivity gap</b>	<b>(16,332)</b>	<b>11,348</b>	<b>(558)</b>	<b>24,377</b>	<b>(4,803)</b>	<b>(600)</b>	<b>(13,432)</b>	<b>-</b>
<b>Cumulative gap</b>	<b>(16,332)</b>	<b>(4,984)</b>	<b>(5,542)</b>	<b>18,835</b>	<b>14,032</b>	<b>13,432</b>	<b>-</b>	<b>-</b>

# LEOPOLD JOSEPH & SONS LIMITED

## Notes to the Financial Statements for the year ended 31<sup>st</sup> March 2004

### 24 Derivatives and other financial instruments (continued)

2003	Not more than three months	More than three months but not more than six months	More than six months but not more than one year	More than one year but not more than three years	More than Three years but not more than five years	More than five years	Non-interest bearing	Total
	£000	£000	£000	£000	£000	£000	£000	£000
<b>Assets:</b>								
Government securities	-	-	-	-	-	-	-	-
Loans and advances to banks	21,666	-	-	-	-	-	1,191	22,857
Loans and advances to customers	114,084	-	1,000	-	5,159	-	1,215	121,458
Debt securities and equity shares	71,000	63,418	14,008	-	-	-	12	148,438
Other assets	-	-	-	-	-	-	8,379	8,379
<b>Total assets</b>	<b>206,750</b>	<b>63,418</b>	<b>15,008</b>	<b>-</b>	<b>5,159</b>	<b>-</b>	<b>10,797</b>	<b>301,132</b>
<b>Liabilities:</b>								
Deposits by banks	33,319	-	5,810	-	-	-	1,266	40,395
Customer accounts	225,034	200	6,297	-	-	-	-	231,531
Other liabilities	-	-	-	-	-	-	3,895	3,895
Loan capital and other subordinated liabilities	-	-	-	-	-	5,000	-	5,000
Minority interests and shareholders' funds	-	-	-	-	-	-	20,311	20,311
<b>Total liabilities</b>	<b>258,353</b>	<b>200</b>	<b>12,107</b>	<b>-</b>	<b>-</b>	<b>5,000</b>	<b>25,472</b>	<b>301,132</b>
Off balance sheet items	(6,500)	(16,500)	3,000	5,500	9,500	5,000	-	-
<b>Interest rate sensitivity gap</b>	<b>(58,103)</b>	<b>46,718</b>	<b>5,901</b>	<b>5,500</b>	<b>14,659</b>	<b>-</b>	<b>(14,675)</b>	<b>-</b>
<b>Cumulative gap</b>	<b>(58,103)</b>	<b>(11,385)</b>	<b>(5,484)</b>	<b>16</b>	<b>14,675</b>	<b>14,675</b>	<b>-</b>	<b>-</b>

### Hedging

A hedge is an instrument that has a value or cashflow that is expected to move inversely with changes in the cashflows of the position being hedged. The group's policy is to hedge any significant obligation to clients. Any remaining position is covered by limits set by the board. Unrecognised gains and losses on hedges are expected to be matched by losses and gains on the hedges transaction or positions.

	2004 £000	2003 £000
Unrecognised net gains at 31st March 2003	1,490	638
Included in the profit and loss account	(635)	(633)
Prior year items not recognised	855	5
Current year items not recognised	(510)	1,485
Unrecognised net gains at 31st March 2004	345	1,490
Of which:		
likely to be recognised by 31st March 2005	133	551
likely to be recognised after 31st March 2005	212	939

# LEOPOLD JOSEPH & SONS LIMITED

## Notes to the Financial Statements for the year ended 31<sup>st</sup> March 2004

### 24 Derivatives and other financial instruments (continued)

#### Derivative instruments disclosures

Derivative instruments are contracts whose value is derived from one or more underlying financial instruments or indices defined in the contract. They include swaps, caps, forward rate agreements, futures, options and combinations of these instruments and are usually off balance sheet.

The amounts of off balance sheet instruments which are disclosed below are also representative of the business during the year. Disclosure of derivative contracts entered into by the bank was made in the company's accounts in prior years in accordance with recommended practice for banks. In order to remain consistent and to provide information which is useful to readers we have continued the disclosure along the same lines as in previous years.

Contract Type	2004	Customer	Gross	Gross	2003	Customer	Gross	Gross
	Non-trading	Facilitation	Positive	Negative	Non-trading	facilitation	Positive	Negative
	Notional	Notional	fair	fair	Notional	Notional	fair	fair
	principal	Principal	value	value	Principal	Principal	value	value
	£000	£000	£000	£000	£000	£000	£000	£000
Exchange rate	-	53,385	1,890	1,848	-	68,363	854	851
Interest rate	91,200	7,000	737	392	150,220	9,220	2,823	1,333
	91,200	60,385	2,627	2,240	150,220	77,583	3,677	2,184

The residual maturity of counterparty exposures arising from over the counter and non-margined exchange traded contracts is set out below. Replacement cost is defined as the cost of replacing all transactions with a positive fair value. Revaluation profits on equity contracts are attributable to Millennium account holders.

	2004	Between	Five	Total	2003	Between	Five	Total
	One	one and	years		One	one and	years	
	year	five years	or more		year	five years	or more	
	or less	£'000	£'000		or less	£'000	£'000	
	£'000	£'000	£'000		£'000	£'000	£'000	
Residual maturity:								
Replacement cost:								
Financial Institution	1,019	702	45	1,766	541	2,193	253	2,987
Other	752	109	-	861	385	305	-	690
	1,771	811	45	2,627	926	2,498	253	3,677
Notional principal:								
Financial Institutions	26,605	89,062	5,600	121,267	66,240	119,220	5,000	190,460
Other	21,860	8,458	-	30,318	31,123	6,220	-	37,343
	48,465	97,520	5,600	151,585	97,363	125,440	5,000	227,803

# LEOPOLD JOSEPH & SONS LIMITED

## Notes to the Financial Statements for the year ended 31<sup>st</sup> March 2004

### 24 Derivatives and other financial instruments (continued)

#### **Fair Values**

The fair value of financial assets and liabilities held on the balance sheet is the same as the book value with the exception of bank and building society certificates of deposit which are included under debt securities and are more fully described in note 12. These certificates of deposit are held primarily for liquidity purposes. Because they are short term in nature the fair value of these instruments is not materially different from book value.

#### **Instruments held for trading**

The company maintains tight treasury dealing limits and its treasury activities are concentrated on customer facilitation and managing the bank's own book. Dealing profits arise on foreign currency transactions which stem from a mixture of own account trading and customer facilitation. Limits are set so that in a single day no significant loss should arise. The dealing profits for the year were £506,000 (2003: £1,253,000).

Other than foreign exchange positions the company has not identified any assets or liabilities as being specifically for trading.

At 31<sup>st</sup> March 2004 the net positions held in foreign currencies were as follows:

	2004 £000	2003 £000
US dollars	7	(48)
Swiss francs	13	(42)
Euros	(42)	27
Other	35	(48)
Total	13	(111)

The group does not use sensitivity analysis or value at risk methods to monitor exposure. During the year overnight exposures on the trading book were as follows:

	2004 £000	2003 £000
Highest	501	749
Lowest	1	1
Average	69	173

### 25 Capital Expenditure

Capital expenditure of £145,000 (2003: £119,000) has been authorised but not yet contracted for.

Capital expenditure of £13,000 (2003: £16,000) has been authorised and contracted for.

At 31<sup>st</sup> March 2004 the company's annual commitment under non-cancellable operating leases was:

	2004 £000	2003 £000
Office premises - over five years	<u>662</u>	<u>662</u>

## LEOPOLD JOSEPH & SONS LIMITED

### Notes to the Financial Statements for the year ended 31<sup>st</sup> March 2004

#### 26 Related Party Disclosures

Leopold Joseph & Sons Limited as a banking company is obliged under normal circumstances to maintain strict confidentiality in respect of the identity of its clients, contractual arrangements with clients and their personal transactions and therefore normal banking transactions with directors and their families are not disclosed except where required by statute.

The Leopold Joseph & Sons Limited Pension Scheme is by definition a related party and transactions with the scheme are disclosed in note 6.

As the company is a wholly owned subsidiary of Leopold Joseph Holdings plc, it is exempt from disclosure of transactions with other group undertakings under Financial Reporting Standard 8.

#### 27 Ultimate Parent Company

As at 31<sup>st</sup> March 2004 the company's ultimate and immediate parent company and ultimate controlling entity was Leopold Joseph Holdings Public Limited Company, registered in England and Wales, which is the company for which consolidated financial statements are prepared. On 2<sup>nd</sup> April 2004 an offer for Leopold Joseph Holdings Public Limited Company by Bank of Butterfield (UK) plc was declared unconditional and on that date the ultimate holding company and controlling entity changed to The Bank of N.T. Butterfield & Son Limited, a company registered in Bermuda.

The financial statements of the ultimate parent company may be obtained from 99 Gresham Street, London EC2V 7NG.

# **INDEPENDENT AUDITORS REPORT TO THE MEMBERS OF LEOPOLD JOSEPH & SONS LIMITED**

We have audited the financial statements of Leopold Joseph & Sons Limited for the year ended 31<sup>st</sup> March 2004 which comprise the profit and loss account, the balance sheet, the statement of total recognised gains and losses, the statement of movements in shareholders' funds and the related notes 1 to 27. These financial statements have been prepared under the accounting policies set out therein.

This report is made solely to the company's members, as a body, in accordance with section 235 of the Companies Act 1985. Our audit work has been undertaken so that we might state to the company's members those matters we are required to state to them in an 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 AUDITORS**

As described in the statement of directors' responsibilities, the company's directors are responsible for the preparation of the financial statements in accordance with applicable United Kingdom law and accounting standards. Our responsibility is to audit the financial statements in accordance with relevant United Kingdom legal and regulatory requirements and auditing standards.

We report to you our opinion as to whether the financial statements give a true and fair view and are properly prepared in accordance with the Companies Act 1985. We also report, if in our opinion, the directors' report is not consistent with the financial statements, if the company has not kept proper accounting records, if we have not received all the information and explanations we require for our audit, or if information specified by law regarding directors' remuneration and transactions with the company is not disclosed.

We read the directors' report for the above year and consider the implications for our report if we become aware of any apparent misstatements.

## **BASIS OF AUDIT OPINION**

We conducted our audit in accordance with United Kingdom auditing standards issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and judgements made by the directors in preparation of the financial statements, and of whether the accounting policies are appropriate to the company's circumstances, consistently applied and adequately disclosed.

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

## **OPINION**

In our opinion the financial statements give a true and fair view of the state of the company's affairs as at 31<sup>st</sup> March 2004 and of its profit for the year then ended and have been properly prepared in accordance with the Companies Act 1985.

*Deloitte & Touche LLP*

Deloitte & Touche LLP

Chartered Accountants and Registered Auditors

London

23rd June 2004

## LEOPOLD JOSEPH & SONS LIMITED

### DIRECTORS' RESPONSIBILITY STATEMENT

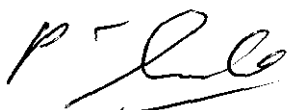
United Kingdom company law requires the directors to prepare financial statements for each financial year which give a true and fair view of the state of affairs of the company as at the end of the financial year and of the profit or loss of the company for that period. In preparing those financial statements, 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 applicable accounting standards have been followed; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the company will continue in business.

The directors confirm that they have met the above requirements.

The directors are responsible for keeping proper accounting records which disclose with reasonable accuracy at any time the financial position of the company and to enable them to ensure that the financial statements comply with the Companies Act 1985. They are also responsible for the company's system of internal control, for safeguarding the assets of the company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

By order of the Board



Paul Thrussell  
Secretary  
23rd June 2004

# LEOPOLD JOSEPH & SONS LIMITED COMPANY

## NOTICE of MEETING

NOTICE IS HEREBY GIVEN that that the annual general meeting of the company will be held on Wednesday 18th August 2004 at 5pm at 99 Gresham Street, London, EC2V 7NG for the following purposes:

1. To receive the audited accounts for the year ended 31st March 2004 and the directors' and auditors' reports thereon.
2. To elect as a Director, Mr A.R.Thompson, who was appointed on 13th May 2004.
3. To elect as a Director, Mr P.A.Turtle, who was appointed on 13th May 2004.
4. To elect as a Director, Mr G.C.Brooks, who was appointed on 26th May 2004.
5. To elect as a Director, Mr M.S.Henderson, who was appointed on 13th May 2004.
6. To elect as a Director, Dr J.A.C.King, who was appointed on 17th May 2004.
7. To appoint PricewaterhouseCoopers as auditors for the ensuing year and to authorise the directors to fix their remuneration.
8. To transact any other business of an annual general meeting.

By order of the Board



Paul Thrussell  
Secretary  
23rd June 2004

A member entitled to attend and vote at the above mentioned meeting is entitled to appoint a proxy to attend and vote (on a poll) instead of him / her. A proxy need not be a member of the company.