

N M Rothschild & Sons Limited

Annual Report 2013

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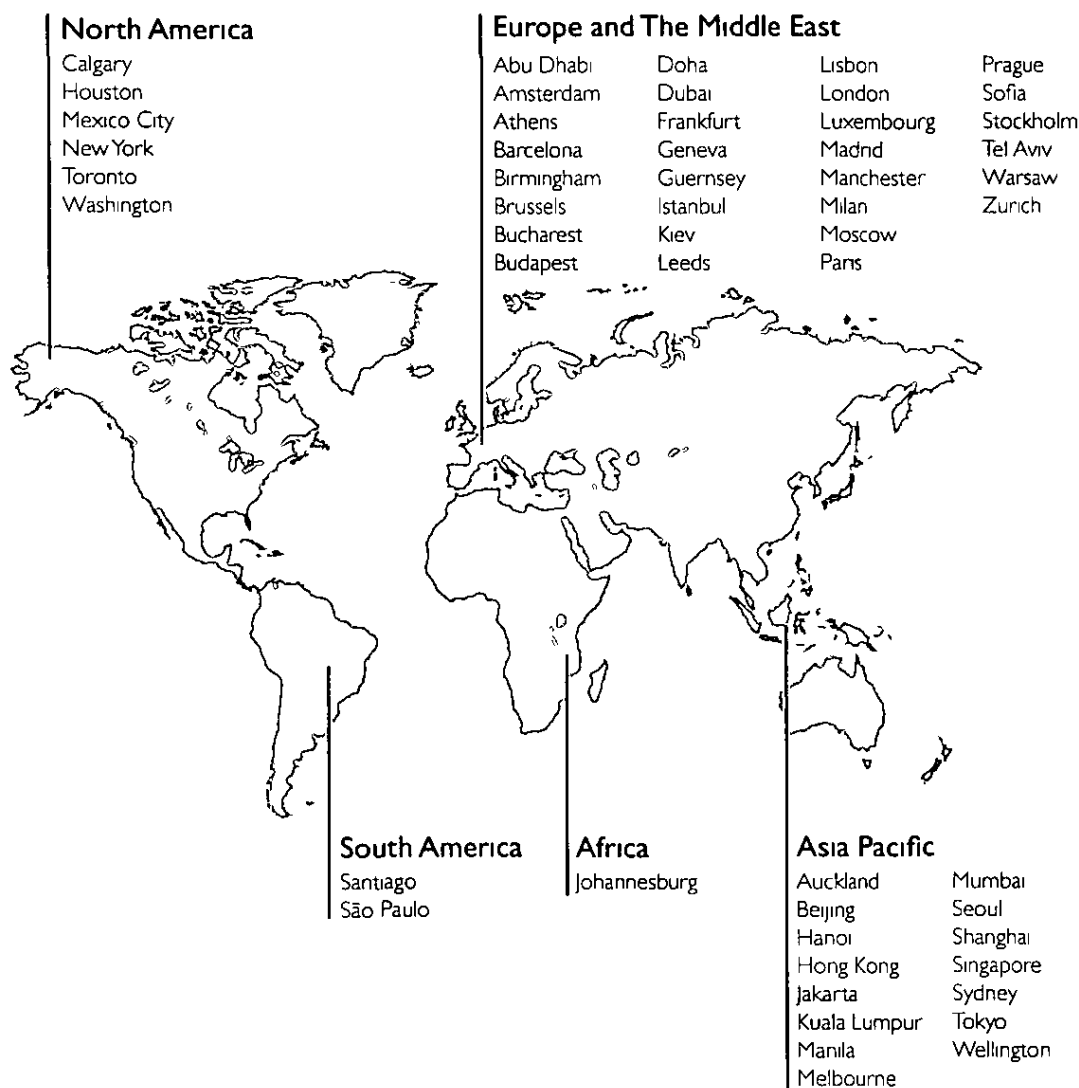
ROTHSCHILD

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The Rothschild Group

Rothschild is one of the world's largest independent financial advisory groups, employing approximately 2 800 people in 40 countries around the world. We provide strategic M&A, wealth management and fundraising advice and services to governments, companies and individuals worldwide.



Directors

Chairman

David de Rothschild

Deputy Chairman

Anthony Alt

Executive Directors

Peter Barbour

Anthony Salz

Andrew Didham

Non-Executive Directors

Daniel Bouton

Eric de Rothschild

Mark Evans

Peter Smith

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 2013

Principal activities and business review

Principal activities

N M Rothschild & Sons Limited ("NMR" or 'the Company') is the main UK operating entity of the wider Rothschild Group which is consolidated under Paris Orleans, the French listed parent company. The Company and its subsidiary undertakings (together 'the Group') main activities are

- Global Financial Advisory where Rothschild's business provides impartial, expert advice and execution services to governments, corporations, institutions and individuals. Alongside our UK advisory business, NMR owns 50% of Rothschild Europe BV and 100% of Rothschild Australia Limited. The remaining 50% of Rothschild Europe BV is owned by Rothschild & Cie Banque, the Paris Orleans Group's principal operating business in France.
- Asset Management, principally in the area of debt fund management, managing a number of CLO leveraged debt and mezzanine debt vehicles.
- Specialist Finance where the Group's Banking business offers services in private client banking, commercial lending, asset finance and treasury. This includes the provision of asset financing to companies and local authorities by NMR's Five Arrows Leasing subsidiaries. The legacy commercial loan book continues to be managed down.

The Company's head office is at New Court, St Swithin's Lane London, EC4N 8AL.

Further information on the Rothschild and Paris Orleans Groups can be found on the corporate websites www.rothschild.com and www.pans-orleans.com

Results overview

The consolidated profit for the year to 31 March 2013 of £30.6m was an improvement on the prior year's £24.6m, particularly so given the continued difficult market conditions in the first half of the year. The profit is also after exceptional impairment provisions against available-for-sale equities (£7.9m) and goodwill (£2.5m).

This improvement was mainly driven by an increase in Global Financial Advisory fee income of £36.1m alongside continued control of costs. The approach of providing impartial, creative and long term ideas and advice to clients across a range of products and industry sectors, coupled with our global presence, positions the business well going forward. In the year to 31 March 2013 Rothschild ranked 6th globally for advisory income.

The debt fund management business is developing well with a good performance from the Elgin Capital business acquired last year and the successful first close of Oberon, a new leveraged debt fund bringing funds under management in this business to £1.4 billion. These provide a solid base to continue to build the debt fund management business.

There were also notable improvements in the Banking business results where net interest income increased alongside a stable impairment charge. The business has further reduced the legacy commercial lending book in the year. The Five Arrows asset finance business had another good year and continues to expand.

Balance sheet

The year has seen further progress towards managing down balance sheet risks with total assets reduced by £125m to £2,160m. This is now half the size of the balance sheet pre-crisis in 2007 which illustrates the significant strategic steps taken to de-risk the business. The balance sheet reduction has focused on managing off the legacy commercial lending book and this year has seen a further fall in loans and advances to customers and available-for-sale financial assets.

Funding and liquidity

While reducing the legacy lending book the Group has ensured that it retains a secure funding position. At the year-end 42% of the balance sheet was held with the UK central bank or in short-term advances to banks. The launch during 2009 of Rothschild Reserve, a fixed term retail deposit offering to UK residents has enabled the Group to retain a comfortable liquidity coverage ratio well in excess of regulatory requirements.

Capital and dividends

Over the course of the year total equity has increased by £11m after the payment of a £13m dividend. The Group's risk asset ratio at 31 March 2013 of 22.1% (31 March 2012: 20.3%) continues to be well above current regulatory requirements. While the implementation of the new "Basel 3" capital regime over the coming years will significantly increase capital requirements, projections prepared as part of the Individual Capital Adequacy Assessment Process (ICAAP) indicate that the Group will maintain a comfortable surplus to the projected regulatory requirements given our current understanding of the rules. The development of the new capital regime will continue to be monitored closely alongside the business environment.

Report of the Directors

Governance and risk management

The NMR Group is an integral part of the wider Paris Orleans Group and as such the governance and risk management framework operates within the overall Paris Orleans Group structure while ensuring the requirements of the NMR Group are fully covered. The key governance committees to which the Board has delegated authority are summarised on page 11.

In terms of risk management, the Chief Risk Officer co-ordinates policy and promotes the development and maintenance of effective procedures throughout the Group. Alongside this, our internal audit team reviews the internal control framework and reports its findings to the Audit Committee.

The key risks to which the Group is exposed continue to be credit, market, liquidity, pension fund, regulatory, reputational, conduct and other operational risks. These risks are closely monitored and controlled as part of the overall risk controls and are taken account of in the Board's periodic assessment of capital and liquidity adequacy. For a business such as ours, loss of key personnel is a material risk which the Group seeks to mitigate through training, career development and remuneration policies.

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.

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 £288,000 (2012: £544,000) 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 (2012: £nil).

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 2012/13 40% of NMR's London staff took part in our volunteering programme, giving 507 working days of time.

Education

We work in partnership with three schools in economically deprived areas close to our offices: Bow Boys School, Old Palace Primary School and Regent High School. Our volunteers participate in literacy support programmes, careers mentoring, employability events, work experience and provide 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 re-accredited in 2013, 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, the London Wildlife Trust and Teach First, amongst others, volunteering on behalf of isolated elderly people, young people in vocational training, London's homeless and our environment. We have also established new relationships with Age UK Camden and Body & Soul in Islington.

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 CO₂ 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. In 2012/13 a Green Champions network of employee volunteers was set up to help implement more effective working practices across the London office.

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 2013, represented 32 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.

Peter Barbour was appointed to the Board on 22 March 2013.

Auditor

Our auditor, KPMG Audit Plc, has instigated an orderly wind down of business. The Board has decided to put KPMG LLP forward to be appointed as auditor and a resolution concerning its appointment will be put to the forthcoming Annual General Meeting of the Company.

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 auditor is aware of that information.

By Order of the Board



Jonathan Westcott, Secretary

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

25 June 2013

Committees

To facilitate the efficient administration of the Company's and the Group's affairs, certain functions and responsibilities have been delegated by the NMR Board to the following committees, a number of which cover the wider Paris Orleans Group ("PO"). The terms of reference and membership of these committees are regularly reviewed.

PO Group Committees which determine overall strategy

PO Group Management Committee

The purpose of the Group Management Committee 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.

The committee comprises the two Chief Executive Officers of PO Gestion, Managing Partner of Paris Orleans SCA (the Rothschild Group holding company), the main divisional business heads, the Group Finance Director, the Group Vice-Chairman Risk and Regulation, the Group Head of Legal and Compliance, the Group Strategy Officer and the Group Human Resources Director.

Membership

Nigel Higgins (Chairman and Co-Chief Executive Officer), Alexandre de Rothschild, Paul Barry, Mark Crump, Andrew Didham, Jean-Louis Laurens, Marc-Olivier Laurent, Robert Leitão, Vert de Maddalena, Richard Martin, Alain Massiera, Olivier Pecoux (Co-Chief Executive Officer), Gary Powell, Jonathan Westcott.

PO Group Assets and Liabilities Committee

This committee is responsible for ensuring that the Group has prudent funding and liquidity strategies for the efficient management and deployment of capital resources 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, Alexander Troschel, Philip Yeates.

Committees of the Company which have oversight responsibilities

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), Michael Clancy, Christopher Coleman, 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, Stuart Vincent, William Wells, Jonathan Westcott, Adam Young.

PO Group Committees which have oversight responsibilities

PO Group Audit Committee

This committee 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), Andre Levy-Lang, Sylvain Hefes, Christian de Labriffe.

PO Group Compliance Committee

This committee examines the effectiveness of the Group's compliance policies and monitoring programmes.

Membership

Jonathan Westcott (Chairman), John Carroll, Jeanny Chang, Carine de La Cotardière, Alexander MacPhee, Stéphane Moal, Lucy Moreton, Axel Stafflage.

PO Group Remuneration Committee

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

Membership

Sylvain Héfès (Chairman), David de Rothschild, Eric de Rothschild, Mark Evans, Peter Smith.

PO Group Risk Committee

This committee formulates adequate risk identification, measurement, monitoring and control policies and procedures that reflect the Group's risk profile and monitors on a consolidated basis the material risks of the Group.

Membership

Alain Cornu-Thenard (Chairman), Andrew Didham, Sylvain Héfès, Jean-Louis Laurens, Philippe Le Bourgeois, Richard Martin, Michele Mezzarobba.

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 2013 set out on pages 16 to 80. 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 Company's 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 auditor's report and for no other purpose. To the fullest extent permitted by law we do not accept or assume responsibility to anyone other than the Company and the Company's members, as a body, for our audit work, for this report, or for the opinions we have formed.

Respective Responsibilities of Directors and Auditor

As explained more fully in the Statement of Directors' responsibilities on page 12, 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 Financial Reporting Council's (FRC'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 FRC'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 2013 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.

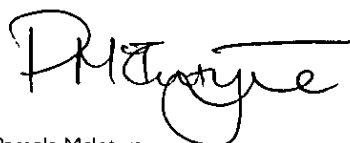
Opinion on Other Matters Prescribed by the Companies Act 2006

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.



Pamela McIntyre
(Senior Statutory Auditor)

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

25 June 2013

Financial statements

Consolidated income statement

For the year ended 31 March 2013

	Note	2013 £'000	2012 £'000
Interest and similar income	4	62 996	76 354
Interest expense and similar charges	4	(43 867)	(58 958)
Net interest income		19,129	17,396
Fee and commission income	5	399 080	354 991
Fee and commission expense	5	(29 969)	(22 951)
Net fee and commission income		369,111	332,040
Net trading income	6	1,474	2 958
Other operating income	7	11 437	19,939
Total operating income		401 151	372 333
Impairment losses on loans and other credit risk provisions	11 12	(11 910)	(12 770)
Other impairment losses on available-for-sale equities	12	(7,941)	–
Net operating income		381,300	359,563
Operating expenses	8 9	(324 447)	(320 313)
Depreciation amortisation and impairment of non-financial assets	17 18	(11 940)	(7 842)
Share of profit in associates	15	3 039	3 514
Profit before income tax		47,952	34,922
Tax	10	(17 351)	(10 291)
Profit for the year*		30 601	24,631

* Of the £30,601,000 (2012 £24,631,000) profit for the year, £17,920,000 (2012 £8,732,000) is attributable to ordinary shareholders of the parent company, £8 257,000 (2012 £9 007 000) is attributable to holders of perpetual instruments and £4,424 000 (2012 £6,892,000) is attributable to other non-controlling interests

The notes on pages 23 to 80 form an integral part of these financial statements

Consolidated statement of comprehensive income

For the year ended 31 March 2013

	Note	2013 £'000	2012 £'000
Profit for the financial year		30,601	24,631
Other comprehensive income			
Available-for-sale investments			
Change in fair value of assets classified as available-for-sale		16,477	(14,205)
Net change in fair value of available-for-sale financial assets transferred to income statement		5,088	(526)
Amortisation of fair value of reclassified assets	11	6,832	5,037
Cash flow hedges			
Effective portion of changes in fair value of cash flow hedges		(2,991)	2,156
Other items recognised directly in equity			
Actuarial losses on defined benefit pension funds	22	(12,174)	(62,224)
Exchange differences on translation of foreign operations		1,438	(3,570)
Income tax on other comprehensive income	10	(5,251)	12,969
Other comprehensive income for the financial year, net of income tax		9,419	(60,363)
Total comprehensive income for the financial year		40,020	(35,732)
Attributable to			
– Ordinary shareholders of the parent		27,179	(50,463)
– Holders of perpetual instruments		8,257	9,007
– Other non-controlling interests		4,584	5,724
		40,020	(35,732)

The notes on pages 23 to 80 form an integral part of these financial statements

Consolidated balance sheet

At 31 March 2013

	Note	2013 £'000	2012 £'000
Assets			
Cash and balances at central banks		837,043	543,038
Loans and advances to banks	11	70,894	156,445
Loans and advances to customers	11	599,475	825,509
Available-for-sale financial assets	12	249,702	376,539
Derivatives	13	22,516	25,117
Other assets	14	164,245	133,402
Current tax assets		3,053	2,479
Investments in associates	15	41,579	38,510
Intangible assets	17	18,526	22,631
Property plant and equipment	18	60,071	63,136
Deferred tax assets	21	92,864	98,214
Total assets		2,159,968	2,285,020
Liabilities			
Deposits by banks		313,975	178,176
Customer deposits		932,227	1,110,091
Derivatives	13	3,541	4,366
Debt securities in issue	19	—	144,717
Other liabilities	20	165,994	139,110
Current tax liabilities		7,638	4,985
Accruals and deferred income		229,251	207,000
Total liabilities		1,652,626	1,788,445
Equity			
Share capital	29	57,655	57,655
Share premium account		97,936	97,936
Retained earnings		223,150	229,376
Other reserves		(109,151)	(31,320)
Total shareholders' equity attributable to ordinary shareholders		367,826	353,647
Non-controlling interests	28	15,181	18,593
Perpetual instruments	30	124,335	124,335
Total equity		507,342	496,575
Total equity and liabilities		2,159,968	2,285,020

The accounts on pages 16 to 80 were approved by the Board of Directors and were signed on its behalf by



Andrew Didham Director

25 June 2013

The notes on pages 23 to 80 form an integral part of these financial statements

Consolidated statement of changes in equity

For the year ended 31 March 2013

	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 2012	57,655	97,936	229,376	13,267	(46,604)	2,017	124,335	18,593	496,575
Total comprehensive income for the period	–	–	6,774	1,196	21,485	(2,276)	8,257	4,584	40,020
Dividends	–	–	(13,000)	–	–	–	–	(7,996)	(20,996)
Interest on perpetual instruments	–	–	–	–	–	–	(10,864)	–	(10,864)
– Tax thereon	–	–	–	–	–	–	2,607	–	2,607
At 31 March 2013	57,655	97,936	223,150	14,463	(25,119)	(259)	124,335	15,181	507,342
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

The notes on pages 23 to 80 form an integral part of these financial statements

Company balance sheet

At 31 March 2013

	Note	2013 £'000	2012 £'000
Assets			
Cash and balances at central banks		837,032	543,025
Loans and advances to banks	11	10,995	92,006
Loans and advances to customers	11	567,516	793,069
Available-for-sale financial assets	12	248,525	375,006
Derivatives	13	22,516	25,117
Other assets	14	109,941	91,871
Current tax assets		—	347
Shares in subsidiary undertakings	31	43,547	43,547
Investments in associates	15	38,379	36,611
Investments in joint ventures	16	3,000	5,375
Property plant and equipment	18	48,788	51,562
Deferred tax assets	21	78,426	88,140
Total assets		2,008,665	2,145,676
Liabilities			
Deposits by banks		312,646	178,176
Customer deposits		941,030	1,184,863
Derivatives	13	3,541	4,366
Debt securities in issue	19	—	86,113
Other liabilities	20	122,137	112,010
Current tax liabilities		826	—
Accruals and deferred income		180,721	150,943
Total liabilities		1,560,901	1,716,471
Equity			
Share capital	29	57,655	57,655
Share premium account		97,936	97,936
Perpetual instruments	30	124,335	124,335
Retained earnings		194,209	195,460
Other reserves		(26,371)	(46,181)
Total equity		447,764	429,205
Total equity and liabilities		2,008,665	2,145,676

The accounts on pages 16 to 80 were approved by the Board of Directors and were signed on its behalf by



Andrew Didham, Director

25 June 2013

The notes on pages 23 to 80 form an integral part of these financial statements

Company statement of changes in equity

For the year ended 31 March 2013

	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 2012	57,655	97,936	195,460	(48,198)	2,017	124,335	429,205
Profit for the financial year	-	-	22,827	-	-	8,257	31,084
Other comprehensive income							
Available-for-sale investments							
Change in fair value of assets classified as available-for-sale	-	-	-	17,153	-	-	17,153
Net change in fair value of available-for-sale financial assets transferred to income statement	-	-	-	5,088	-	-	5,088
Amortisation of fair value of reclassified financial assets	-	-	-	6,832	-	-	6,832
Cash flow hedges							
Effective portion of changes in fair value of cash flow hedges	-	-	-	-	(2,991)	-	(2,991)
Other items							
Actuarial losses on defined benefit pension funds	-	-	(11,966)	-	-	-	(11,966)
Income tax on other comprehensive income	-	-	888	(6,987)	715	-	(5,384)
Dividends	-	-	(13,000)	-	-	-	(13,000)
Interest on perpetual instruments	-	-	-	-	-	(10,864)	(10,864)
-Tax thereon	-	-	-	-	-	2,607	2,607
At 31 March 2013	57,655	97,936	194,209	(26,112)	(259)	124,335	447,764
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

The notes on pages 23 to 80 form an integral part of these financial statements

Cash flow statements

For the year ended 31 March 2013

	Note	2013 Group £'000	2013 Company £'000	2012 Group £'000	2012 Company £'000
Cash flow from operating activities					
Profit before income tax for the financial year		47,952	39,606	34,922	18,407
Adjustments to reconcile net profit to cash flow from operating activities					
Non-cash items included in net profit and other adjustments					
Depreciation, amortisation and impairment of goodwill		11,940	4,736	7,842	3,614
Dividends from subsidiaries, associates and joint ventures		–	(25,176)	–	(20,809)
Share of operating profit of associates		(3,039)	–	(3,514)	–
Impairment of financial and other assets (net of recovery)		19,851	20,884	12,770	15,083
Unrealised exchange losses/(gains) – non-operating assets		798	–	(2,616)	–
Loss/(profit) on disposal of loans and available-for-sale assets		1,859	1,859	(2,510)	(2,510)
Profit on disposal of subsidiaries		(4)	(4)	(546)	–
Profit on disposal of fixed assets		(102)	(37)	(130)	(7)
		31,303	2,262	11,296	(4,629)
Net decrease/(increase) in operating assets					
Net due to/from banks (excluding cash equivalents)		135,461	134,368	1,903	1,944
Derivatives		2,601	2,601	(7,973)	(7,973)
Available-for-sale financial assets		146,245	146,246	193,895	193,067
Loans and advances to customers		213,715	212,116	51,994	49,014
Accrued income, prepaid expenses and other assets		(31,394)	(18,070)	6,733	7,705
		466,628	477,261	246,552	243,757
Net (decrease)/increase in operating liabilities					
Customer deposits		(177,864)	(243,833)	(149,468)	(456,207)
Repurchase agreements		–	–	(41,708)	(41,708)
Derivatives		(3,816)	(3,816)	(8,053)	(8,016)
Debt securities in issue		(144,717)	(86,113)	(319,031)	(10,048)
Accrued expenses and other liabilities		36,961	27,939	(19,651)	(4,734)
Income taxes paid		(11,646)	(410)	(6,004)	1,821
		(301,082)	(306,233)	(543,915)	(518,892)
Net cash flow from/(used in) operating activities*		244,801	212,896	(251,145)	(261,357)
Cash flow (used in)/from investing activities					
Acquisition/increase in stake of subsidiaries, associates and joint ventures		(1,631)	(1,768)	(3,314)	(906)
Dividends received from subsidiaries, associates and joint ventures		1,426	25,176	2,509	20,809
Proceeds from disposal of subsidiaries, associates and joint ventures		4	2,379	4,049	3,503
Purchase of fixed assets		(5,371)	(1,967)	(39,866)	(35,905)
Disposal of fixed assets		747	42	1,044	7
Net cash flow (used in)/from investing activities		(4,825)	23,862	(35,578)	(12,492)
Cash flow used in financing activities					
Dividends paid		(13,000)	(13,000)	(18,000)	(18,000)
Interest paid on perpetual instruments		(10,864)	(10,864)	(12,172)	(12,172)
Distributions to non-controlling interests		(7,996)	–	(5,269)	–
Net cash flow used in financing activities		(31,860)	(23,864)	(35,441)	(30,172)
Net increase/(decrease) in cash and cash equivalents		208,116	212,894	(322,164)	(304,021)
Cash and cash equivalents at 1 April		694,768	634,859	1,016,932	938,880
Cash and cash equivalents at 31 March	26	902,884	847,753	694,768	634,859

* Group cash paid and received for interest during 2013 was £38,698,000 (2012: £60,333,000) and £64,924,000 (2012: £73,967,000) respectively. Company cash paid and received for interest during 2013 was £37,811,000 (2012: £58,314,000) and £50,425,000 (2012: £61,323,000) respectively.

The notes on pages 23 to 80 form an integral part of these financial statements.

Notes to the Financial Statements

(forming part of the Financial Statements)

I. 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, there have been no new or revised Standards that have affected the amounts reported in these 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.

- Amendments to IFRS 7 'Disclosures - Transfers of Financial Assets'
- Amendments to IAS 12 'Deferred Tax - Recovery of Underlying Assets'

New Standards and interpretations

A number of new standards, amendments to standards and interpretations are effective for annual periods beginning after 1 April 2012 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

IAS 19 Employee Benefits (revised) results in changes to the recognition and measurement of defined benefits expenses and certain disclosures. The most significant impact for the Group is to increase the pension expense in the Income Statement by the difference between the current expected return on plan assets and the return calculated by applying the IAS 19 discount rate. Had the changes been effective for the year to 31 March 2013, the income statement charge for defined benefit pensions would have been £4.3 million greater, although actuarial losses recognised in other comprehensive income would have been reduced by the same amount.

Accounting standards first effective in the Group's 2015 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.

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.

Notes to the Financial Statements

(forming part of the Financial Statements)

I. Summary of significant accounting policies (continued)

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 Company has taken advantage of the exemption available in section 408 of the Companies Act 2006 not to present its individual income statement and related notes.

Certain comparatives have been restated to align accrued interest with the relevant financial instruments. The reclassification has no impact on earnings and was done to ensure consistency with current year presentation.

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 2013 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.

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

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).

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 Group's financial statements include its share of the joint venture's assets, liabilities, income and expenses on a line-by-line basis. Proportional consolidation is discontinued when the Group no longer exercises joint control over the entity.

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

Notes to the Financial Statements

(forming part of the Financial Statements)

I. Summary of significant accounting policies (continued)

Basis of consolidation (continued)

Going concern

The Group has considered its capital and liquidity requirements and continues to generate new profitable business. It is well placed to manage its business risk for the foreseeable 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, rounded to the nearest thousand ("£'000"), unless otherwise stated. Sterling 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.

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, when the derivative or the hedged item is derecognised, or when the forecast transaction is no longer expected to occur.

Notes to the Financial Statements

(forming part of the Financial Statements)

1. Summary of Significant Accounting Policies (continued)

Derivative financial instruments and hedge accounting (continued)

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

A hybrid (combined) contract contains both non-derivative host contract and one or more embedded derivatives. 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.

Interest income and expense

Interest income and expense represents interest arising out of banking activities including lending and deposit-taking, interest on related hedging transactions and interest on debt securities. Net interest arising from interest rate instruments held for trading is 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.

Notes to the Financial Statements

(forming part of the Financial Statements)

I. Summary of Significant Accounting Policies (continued)

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.

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

Financial liabilities are carried at amortised cost using the effective interest rate method, except derivatives that are generally classified as at fair value through profit or loss on initial recognition.

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.

Notes to the Financial Statements

(forming part of the Financial Statements)

I. Summary of Significant Accounting Policies (continued)

Financial assets and liabilities (continued)

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 arms 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.

Securitisation transactions

The Group may enter into funding arrangements with lenders in order to finance specific financial assets.

In general, the assets from these transactions are held on the Group's balance sheet on origination. However, to the extent that the risks and returns associated with the assets have been transferred to a third party, the assets 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.

Notes to the Financial Statements

(forming part of the Financial Statements)

I. Summary of Significant Accounting Policies (continued)

Financial assets and liabilities (continued)

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.

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 of 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.

Notes to the Financial Statements

(forming part of the Financial Statements)

I. Summary of Significant Accounting Policies (continued)

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.

- 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	2-10 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.

Notes to the Financial Statements

(forming part of the Financial Statements)

I. Summary of Significant Accounting Policies (continued)

Impairment of property, plant and equipment

At each balance sheet date, or more frequently where events or changes in circumstances dictate, property, plant and equipment is assessed for indications of impairment. If such indications are present, those 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 assets 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.

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 22. 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, if any, between the present value of the defined benefit obligation at the balance sheet date and the fair value of the plan's assets. The defined benefit obligation is calculated annually by independent actuaries using the projected unit credit method. The principal assumptions are set out in note 22. 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 is measured at the date the awards are made and remeasured at each reporting date. Such awards are recognised in the income statement over the vesting period until payment.

Notes to the Financial Statements

(forming part of the Financial Statements)

I. Summary of Significant Accounting Policies (continued)

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.

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.

Notes to the Financial Statements

(forming part of the Financial Statements)

1. Summary of Significant Accounting Policies (continued)

Accounting judgements and estimates (continued)

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 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 assets 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 22. 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 1.0% increase in the discount rate used would result in a £108 million decrease in the measurement of the pension fund liabilities. Similarly, a 1.0% increase in the forecast rate of retail price inflation would result in a £89 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 on appropriate discount rates. Management performs sensitivity analysis of these assumptions to support the valuation. In the current year, £2,500,000 of goodwill relating to the purchase of Lanebridge Investment Management Limited was deemed to be impaired (see note 17 for further information).

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 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 13. The key risks arising from the Group's activities involving financial instruments are as follows:

- Credit risk – the risk of loss arising from client or counterparty default.
- Market risk – exposure to changes in market variables such as interest rates, currency exchange rates, equity and debt prices.
- Liquidity and funding risk – the risk that the Group 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 2013							
Cash and balances at central banks	837,043	–	–	–	–	–	837,043
Derivatives	22,516	–	–	–	–	–	22,516
Loans and advances to banks	70,894	–	–	–	–	–	70,894
Loans and advances to customers	314,108	86,225	92,392	27,966	162,605	(83,821)	599,475
Available-for-sale financial assets							
– debt securities	140,594	8,035	–	–	11,576	(10,574)	149,631
Commitments and guarantees	6,034	3,051	2,664	–	577	–	12,326
Other financial assets	131,514	–	325	10,403	7,066	(5,772)	143,536
Total	1,522,703	97,311	95,381	38,369	181,824	(100,167)	1,835,421

At 31 March 2012							
Cash and balances at central banks	543,038	–	–	–	–	–	543,038
Derivatives	25,117	–	–	–	–	–	25,117
Loans and advances to banks	156,445	–	–	–	–	–	156,445
Loans and advances to customers	499,718	103,721	126,786	12,259	158,829	(75,804)	825,509
Available-for-sale financial assets							
– debt securities	267,870	125	–	–	10,891	(10,891)	267,995
Commitments and guarantees	49,826	1,013	4,708	–	1,206	–	56,753
Other financial assets	99,688	–	11	3,725	4,161	(3,420)	104,165
Total	1,641,702	104,859	131,505	15,984	175,087	(90,115)	1,979,022

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 2013			
Loans and advances to customers	7,356	20,610	27,966
Accounts receivable	4,992	5,411	10,403
Total	12,348	26,021	38,369
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

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 2013							
Cash and balances at central banks	837 032	–	–	–	–	–	837 032
Derivatives	22 516	–	–	–	–	–	22 516
Loans and advances to banks	10 995	–	–	–	–	–	10 995
Loans and advances to customers	287 215	86 225	101 395	20 707	152 414	(80 440)	567 516
Available-for-sale financial assets – debt securities	140 467	8 035	–	–	11 576	(10 574)	149 504
Commitments and guarantees	142 713	3 051	2 664	–	577	–	149 005
Other financial assets	91 953	–	–	3 245	2 519	(2 479)	95 238
Total	1,532,891	97,311	104,059	23,952	167,086	(93,493)	1,831,806

At 31 March 2012							
Cash and balances at central banks	543 025	–	–	–	–	–	543 025
Derivatives	25 117	–	–	–	–	–	25 117
Loans and advances to banks	92 006	–	–	–	–	–	92 006
Loans and advances to customers	467 790	103 721	126 786	7 334	159,999	(72 561)	793 069
Available-for-sale financial assets – debt securities	267 745	125	–	–	10 891	(10 891)	267,870
Commitments and guarantees	247 481	1 013	4 708	–	1 206	–	254 408
Other financial assets	76 572	–	–	1 721	3 700	(2 959)	79 034
Total	1 719,736	104,859	131,494	9,055	175,796	(86,411)	2,054,529

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 2013			
Loans and advances to customers	1 110	19 597	20 707
Accounts receivable	2 282	963	3 245
Total	3 392	20,560	23,952
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

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

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 £146 million and asset based lending of £141 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 2013 £'000	Individually impaired 2013 £'000	Past due but not impaired 2012 £'000	Individually impaired 2012 £'000
Group				
Property	21,312	81,380	3,317	79,439
Debt and equity securities	–	1,137	–	2,000
Commercial vehicles and other equipment	6,361	3,522	3,673	1,951
Guarantees and fixed or floating charges	–	8,561	5,212	22,797
Other	–	837	–	1,545
Collateral held	27,673	95,437	12,202	107,732
Amount of exposures collateralised (net of specific provisions)	27,966	105,540	12,259	112,835
Company				
Property	20,414	77,179	2,065	74,944
Debt and equity securities	–	1,137	–	2,000
Commercial vehicles and other equipment	–	–	–	115
Guarantees and fixed or floating charges	–	8,561	5,212	22,797
Other	–	837	–	1,545
Collateral held	20,414	87,714	7,277	101,401
Amount of exposures collateralised (net of specific provisions)	20,707	95,349	7,334	106,504

Notes to the Financial Statements

(forming part of the Financial Statements)

2. Financial Risk Management (continued)

2.2 Credit risk (continued)

c Forbearance

As refinancing and sale options are currently limited, it is generally in the lender's and borrower's interest to extend certain facilities at maturity and not to foreclose on the security. This assumes there are no underlying issues regarding the borrower's ability to continue to service the loan and the level of collateral is expected to be of sufficient quality to secure the principal.

Unimpaired loans extended in this manner are not categorised as either past due or as renegotiated. As at 31 March 2013 loans with a carrying value of £129.5m had been extended (2012: £228.5m), all of which were property loans.

There are a small number of loans which are overdue but not impaired pending an extension of maturity. As at 31 March 2013 these amounted to £20.7m (2012: £7.3m).

Some loans were renegotiated on substantially different terms than before. Typically these loans include revised covenants and higher margins to reflect higher credit risk as well as having extended maturities. But for these renegotiations the loans would have been deemed to have been impaired. As at 31 March 2013 the carrying value of all loans renegotiated was £77.9m (2012: £104.6m).

d Credit risk concentrations

The Group monitors concentrations of credit risk by geographic location and by industry sector. The following tables show an analysis of credit risk by location and by sector. The location for loans and advances is determined by reference to the location of the borrower, and debt securities are recorded based on the location of the issuer of the security. In the current climate, exposures to the weaker eurozone economies are closely monitored by senior management and the Group has no sovereign debt exposure to peripheral eurozone economies.

Within "Other Europe" available-for-sale financial assets are £45 million of assets with exposure to the weaker eurozone countries, predominantly Ireland and Spain, (2012: £53 million). Of this, £37 million relates to a portfolio of residential mortgage backed securities. Each asset is top tier in its respective structure, benefiting from substantial credit support from the subordination of junior notes and excess reserve balances. The remaining £8 million relates to collateralised loan obligations which have some exposure to the weaker economies.

Loans to customers include £11 million of loans to the weaker eurozone economies (2012: £24 million), all of which have been subject to close review. The Group expects to realise the carrying value of these loans.

The sector analysis is based on Global Industry Classification Standards and includes derivatives, loans and advances to banks, loans and advances to customers, debt securities, commitments 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 2013					
Cash and balances at central banks	837 032	11	—	—	837 043
Derivatives	19 663	2 853	—	—	22 516
Loans and advances to banks	6 383	38 195	9 881	16 435	70 894
Loans and advances to customers	449 797	134 522	2 340	12 816	599 475
Available-for-sale financial assets – debt securities	69 212	68,163	10 710	1 546	149 631
Commitments and guarantees	4,778	7 548	—	—	12,326
Other financial assets	63 759	59 337	8 101	12 339	143 536
Total	1,450,624	310,629	31,032	43,136	1,835,421

At 31 March 2012

Cash and balances at central banks	543 025	13	—	—	543 038
Derivatives	13 422	11 671	24	—	25 117
Loans and advances to banks	53 170	69 123	8 267	25 885	156 445
Loans and advances to customers	607 641	189 023	15 256	13 589	825 509
Available-for-sale financial assets – debt securities	140 289	115 618	10 224	1 864	267 995
Commitments and guarantees	43 473	13 280	—	—	56 753
Other financial assets	53,714	31,018	6 198	13 235	104 165
Total	1,454 734	429,746	39 969	54,573	1,979,022

Company

At 31 March 2013

Cash and balances at central banks	837 032	—	—	—	837 032
Derivatives	19 663	2 853	—	—	22 516
Loans and advances to banks	422	653	9 881	39	10 995
Loans and advances to customers	415 513	136 847	2 340	12 816	567 516
Available-for-sale financial assets – debt securities	69 212	68 036	10 710	1,546	149,504
Commitments and guarantees	141,457	7,548	—	—	149,005
Other financial assets	56 375	26 031	7 120	5,712	95 238
Total	1,539,674	241,968	30,051	20,113	1 831,806

At 31 March 2012

Cash and balances at central banks	543 025	—	—	—	543 025
Derivatives	13 422	11 671	24	—	25 117
Loans and advances to banks	49 710	33 452	8 267	577	92 006
Loans and advances to customers	574 160	190 064	15 256	13 589	793 069
Available-for-sale financial assets – debt securities	140 289	115 493	10 224	1 864	267 870
Commitments and guarantees	241 045	13 363	—	—	254 408
Other financial assets	49 268	17 217	5 010	7 539	79 034
Total	1,610,919	381,260	38,781	23 569	2,054,529

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	2013 £'000	2012 £'000
Group		
Materials	44 923	61 370
Industrials	82 584	89 621
Consumer discretionary	82 889	96 714
Consumer staples	35 495	70,800
Health care	15,097	15 484
Financial (see below)	174 622	353 267
Real estate (see below)	252 159	377,258
IT and telecoms	26,977	21 324
Governments and Central Banks	900,271	698 935
Private persons	22 618	22 212
Related party loans, commitments and guarantees	54 250	67 872
Total	1,691,885	1 874 857
Company		
Materials	41 232	57 374
Industrials	20 652	39 464
Consumer discretionary	35 062	53 262
Consumer staples	12 741	55 442
Health care	9 007	9 620
Financial (see below)	114 619	289 229
Real estate (see below)	250 841	376 116
IT and telecoms	26 977	21 324
Governments and Central Banks	889 070	686 393
Private persons	22 618	22 212
Related party loans, commitments and guarantees	313 749	365,059
Total	1,736 568	1,975,495

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 are analysed as follows

	Group		Company	
	2013 £'000	2012 £'000	2013 £'000	2012 £'000
Financial sector				
Short term interbank exposures	70,894	156,444	10,994	92,006
Investment grade securities	42,890	59,080	42,890	59,080
Cash/investment backed lending	3,388	75,503	3,388	75,503
Finance companies	15,854	9,708	15,854	9,708
Other	41,596	52,532	41,493	52,932
Total	174,622	353,267	114,619	289,229

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

	Group		Company	
	2013 £'000	2012 £'000	2013 £'000	2012 £'000
Real estate sector				
Senior loans	195,556	309,775	194,238	308,633
Subordinated/mezzanine loans	56,603	67,483	56,603	67,483
Total	252,159	377,258	250,841	376,116

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, equity and debt markets and comprises interest rate, foreign exchange and equity and debt 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.

Notes to the Financial Statements

(forming part of the Financial Statements)

2. Financial Risk Management (continued)

2.3 Market risk (continued)

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 2013				
Equity investments	51,680	47,880	511	100,071
At 31 March 2012				
Equity investments	53,512	54,431	601	108,544
Company				
At 31 March 2013				
Equity investments	50,630	47,880	511	99,021
At 31 March 2012				
Equity investments	52,104	54,431	601	107,136

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

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 post-tax charge to equity of £3,853,000 (2012: £nil and £4,125,000 respectively) and for the Company there would be a post-tax charge to the income statement of £nil and a post-tax charge to equity of £3,812,000 (2012: £nil and £4,071,000 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 post-tax credit to equity of £3,853,000 (2012: £nil and £4,125,000 respectively) and for the Company there would be a post-tax credit to the income statement of £nil and a post-tax credit to the equity of £3,812,000 (2012: £nil and £4,071,000 respectively).

Notes to the Financial Statements

(forming part of the Financial Statements)

2. Financial Risk Management (continued)

2.3 Market risk (continued)

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)	
	2013 £'000	2012 £'000	2013 £'000	2012 £'000
US\$	7,205	6,624	4	(587)
Euro	(26)	1,821	(33)	1,821
Other	7,153	6,233	152	(1,515)

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 £552,000 (2012: £558,000) and for the Company there would be a post-tax charge to the income statement of £5,000 (2012: post-tax gain of £11,000)

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 £552,000 (2012: £558,000) and for the Company there would be a post-tax credit to the income statement of £5,000 (2012: post-tax charge £11,000)

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 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	
	2013 £'000	2012 £'000	2013 £'000	2012 £'000
£	709	(673)	774	(483)
US\$	84	329	84	329
Euro	220	645	220	645

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 regulator'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 2013, the LCR was significantly in excess of both this internal limit and 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 2013						
Cash and balances at central banks	837,043	-	-	-	-	837,043
Loans and advances to banks	44,549	22,180	-	4,165	-	70,894
Derivatives	15	6,528	2,356	13,617	-	22,516
Loans and advances to customers	73,408	120,241	138,120	292,002	(24,296)	599,475
Available-for-sale financial assets	-	990	25,421	123,220	100,071	249,702
Other financial assets	90	122,635	20,705	106	-	143,536
Total	955,105	272,574	186,602	433,110	75,775	1,923,166
Deposits by banks	308,131	28	5,816	-	-	313,975
Customer deposits	48,949	294,688	191,865	396,725	-	932,227
Derivatives	1	1,206	884	1,450	-	3,541
Other financial liabilities	-	15,055	10,257	2,132	-	27,444
Total	357,081	310,977	208,822	400,307	-	1,277,187
At 31 March 2012						
Cash and balances at central banks	543,038	-	-	-	-	543,038
Loans and advances to banks	110,330	41,544	680	3,891	-	156,445
Derivatives	1,369	1,227	3,878	18,643	-	25,117
Loans and advances to customers	34,520	209,876	198,866	412,058	(29,811)	825,509
Available-for-sale financial assets	-	124,961	983	142,051	108,544	376,539
Other financial assets	1,793	100,687	1,613	72	-	104,165
Total	691,050	478,295	206,020	576,715	78,733	2,030,813
Deposits by banks	160,787	8,516	8,873	-	-	178,176
Customer deposits	74,640	237,337	90,347	707,767	-	1,110,091
Derivatives	-	1,258	614	2,494	-	4,366
Debt securities in issue	86,113	58,604	-	-	-	144,717
Other financial liabilities	1,634	11,292	-	-	-	12,926
Total	323,174	317,007	99,834	710,261	-	1,450,276

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 2013						
Cash and balances at central banks	837,032	–	–	–	–	837,032
Loans and advances to banks	10,995	–	–	–	–	10,995
Derivatives	15	6,528	2,356	13,617	–	22,516
Loans and advances to customers	73,668	105,845	96,668	314,711	(23,376)	567,516
Available-for-sale financial assets	–	990	25,421	123,093	99,021	248,525
Other financial assets	–	86,003	9,235	–	–	95,238
Total	921,710	199,366	133,680	451,421	75,645	1,781,822
Deposits by banks	308,115	28	4,503	–	–	312,646
Customer deposits	57,753	294,687	191,865	396,725	–	941,030
Derivatives	1	1,206	884	1,450	–	3,541
Other financial liabilities	–	12,754	9,204	–	–	21,958
Total	365,869	308,675	206,456	398,175	–	1,279,175
At 31 March 2012						
Cash and balances at central banks	543,025	–	–	–	–	543,025
Loans and advances to banks	58,488	33,518	–	–	–	92,006
Derivatives	1,369	1,227	3,878	18,643	–	25,117
Loans and advances to customers	34,520	195,711	176,545	415,099	(28,806)	793,069
Available-for-sale financial assets	–	124,961	983	141,926	107,136	375,006
Other financial assets	1,667	77,367	–	–	–	79,034
Total	639,069	432,784	181,406	575,668	78,330	1,907,257
Deposits by banks	160,787	8,516	8,873	–	–	178,176
Customer deposits	90,799	295,951	90,346	707,767	–	1,184,863
Derivatives	–	1,258	614	2,494	–	4,366
Debt securities in issue	86,113	–	–	–	–	86,113
Other financial liabilities	1,634	11,235	–	–	–	12,869
Total	339,333	316,960	99,833	710,261	–	1,466,387

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 2013						
Deposits by banks	308,143	56	5,879	–	–	314,078
Customer deposits	48,953	315,110	216,095	425,134	–	1,005,292
Other liabilities	–	15,055	10,257	2,132	–	27,444
Total	357,096	330,221	232,231	427,266	–	1,346,814
Loan commitments and guarantees	–	12,326	–	–	–	12,326

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

Company						
At 31 March 2013						
Deposits by banks	308,127	56	4,566	–	–	312,749
Customer deposits	57,757	315,109	216,095	425,134	–	1,014,095
Other liabilities	–	12,754	9,204	–	–	21,958
Total	365,884	327,919	229,865	425,134	–	1,348,802
Loan commitments and guarantees	–	149,005	–	–	–	149,005

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

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

Until 31 March 2013 the Company's regulator was the Financial Services Authority ("FSA") who set and monitored capital requirements for UK regulated financial institutions. Since 1 April 2013, this responsibility transferred to the Prudential Regulation Authority ("PRA"). 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.

An annual Internal Capital Adequacy Assessment Process ("ICAAP") which is subject to regulator 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 regulator.

	2013 £m	2012 £m
Tier 1 capital		
Called up share capital	57.7	57.7
Share premium account	97.9	97.9
Retained earnings and other reserves	222.7	224.8
Pension fund valuation adjustment	29.6	29.6
Deductions from tier 1 capital ¹	(5.0)	(4.7)
Total tier 1 capital	402.9	405.3
Tier 2 capital		
Perpetual subordinated notes	124.3	124.3
Collective provisions	24.3	29.7
Other items	–	0.3
Deductions from tier 2 capital	–	–
Total tier 2 capital	148.6	154.3
Total tier 1 & 2 capital	551.5	559.6
Deductions from total of tier 1 and tier 2 capital*	(155.6)	(164.4)
Capital Resources	395.9	395.2

* 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.

Notes to the Financial Statements

(forming part of the Financial Statements)

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

Financial assets and liabilities carried at amortised cost

Group	Carrying value 2013 £'000	Fair value 2013 £'000	Carrying value 2012 £'000	Fair value 2012 £'000
Financial assets				
Loans and advances to customers	599 475	561 735	825 509	767 038
Financial liabilities				
Deposits by banks	313 975	313 975	178 176	178 176
Due to customers	932 227	945 977	1,110 091	1 110 091
Debt securities in issue	–	–	144 717	144 731
Other financial liabilities	22 020	22 020	7 612	7 612

Company

Financial assets				
Loans and advances to customers	567 516	529 776	793 069	736 223
Financial liabilities				
Deposits by banks	312 646	312 646	178,176	178,176
Due to customers	941 030	954 780	1 184 863	1 191,616
Debt securities in issue	–	–	86 113	86 127

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 2013				
Financial assets				
Financial assets held for trading	1 409	54	1 355	–
Financial assets held for risk management purposes	21 107	–	21 107	–
Available-for-sale financial assets	249 702	124 661	51 274	73 767
Total	272,218	124,715	73,736	73,767
Financial liabilities				
Financial liabilities held for trading	1 778	–	1 778	–
Financial liabilities held for risk management purposes	1 763	–	1 763	–
Other financial liabilities	5,424	–	5 424	–
Total	8,965	–	8,965	–

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 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	376,539	242 960	52 155	81,424
Total	406 653	243,007	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	–

Company

At 31 March 2013

Financial assets				
Financial assets held for trading	1 409	54	1 355	–
Financial assets held for risk management purposes	21 107	–	21 107	–
Available-for-sale financial assets	248,525	123,484	51 274	73 767
Total	271,041	123,538	73,736	73,767
Financial liabilities				
Financial liabilities held for trading	1 778	–	1 778	–
Financial liabilities held for risk management purposes	1 763	–	1 763	–
Total	3,541	–	3 541	–

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	375 006	241 427	52 155	81 424
Total	405 120	241 474	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	–

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

	2013 £'000	2012 £'000
Available-for-sale financial assets		
At 1 April	81,424	80,449
Total gains and (losses)		
– in income statement (as 'other operating income')	407	(196)
– through other comprehensive income ('change in fair value of assets classified as available-for-sale')	(8,281)	1,202
Settlements	(92)	(119)
Exchange movements	309	88
At 31 March	73,767	81,424

Total gains of £407,000 (2012 losses of £196,000) 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	2013 £'000	2012 £'000
Current fair value	73,767	81,424
Cashflow +10% addition to fair value	7,364	8,143
Cashflow -10% reduction in fair value	7,364	8,143

Notes to the Financial Statements

(forming part of the Financial Statements)

4. Net Interest Income

	2013 £'000	2012 £'000
Interest and similar income		
Loans and advances	60,985	71,800
Available-for-sale financial assets	2,009	4,544
Other	2	10
	62,996	76,354
Interest expense and similar charges		
Amounts due to banks and customers	40,114	47,131
Debt securities in issue	3,753	11,827
	43,867	58,958

Included within interest income is £4,844,000 (2012: £5,083,000) in respect of interest income accrued on impaired financial assets

5. Net Fee and Commission Income

	2013 £'000	2012 £'000
Fee and commission income		
Banking and credit-related fees and commissions	2,461	3,332
Fees for advisory work and other services	371,321	335,215
Other fees	25,298	16,444
	399,080	354,991
Fee and commission expense		
Global financial advisory fees payable	29,593	22,497
Other fees payable	376	454
	29,969	22,951

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

	2013 £'000	2012 £'000
Foreign exchange gains	702	1 362
Interest rate instruments – trading	704	334
Interest rate instruments – hedging	68	(219)
Fair value movements	–	1 478
Equities	–	3
	1,474	2,958

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

	2013 £'000	2012 £'000
Operating lease income	6 519	6,992
Rental income	53	105
Dividend income	1 715	1 800
Gain on disposal of fixed assets	102	130
Profit on disposal of subsidiaries	4	546
Gains less losses from loans and available-for-sale financial assets	(1 859)	2 510
Other	4 903	7,856
	11 437	19 939

Notes to the Financial Statements

(forming part of the Financial Statements)

8. Operating Expenses

	Note	2013 £'000	2012 £'000
Staff costs	9	264 387	251 942
Administrative expenses		60 060	68 371
		324,447	320,313

The auditor's remuneration was as follows

	2013 £'000	2012 £'000
Audit fees relating to the Company	194	241
Audit fees relating to subsidiary undertakings and other affiliates	510	557
	704	798

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

	2013 £'000	2012 £'000
Audit-related assurance services	43	43
Tax services	179	90
Other services	156	76
	378	209

9. Staff Costs

	Note	2013 Group £'000	2013 Company £'000	2012 Group £'000	2012 Company £'000
Salaries (excluding profit share)		99 905	61 351	106 503	62 225
Social security costs		11 741	7 421	12 072	7 558
Staff benefits and other staff costs		20,439	11 833	23 904	16,269
Pension costs					
– Defined benefit plans	22	5 159	5 003	2 636	2 487
– Defined contribution plans	22	4 994	3 069	4 094	2 059
Post-retirement benefits		977	964	943	928
Staff costs (excluding profit share)		143,215	89,641	150,152	91,526
Directors and employees annual profit share		121 172	85 728	101 790	64 751
Total staff costs		264 387	175,369	251,942	156 277

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

	2013 Group	2013 Company	2012 Group	2012 Company
Global Financial Advisory	638	363	677	390
Banking and asset management	184	30	209	52
Support and other	242	242	239	239
	1,064	635	1,125	681

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

	2013 Group	2013 Company	2012 Group	2012 Company
Global Financial Advisory	658	377	718	412
Banking and asset management	185	30	219	54
Support and other	251	251	233	233
	1,094	658	1,170	699

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 Rothschilds 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 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 annual profit share charge.

RCH shares are not quoted, but their value is determined when required by an independent valuation.

A commitment to employees exists in relation to deferred remuneration. Some amounts have not yet accrued because it relates to future service periods. The amount of potential future payments that have not yet accrued is £25,567,000 (2012: £15,227,000).

Notes to the Financial Statements

(forming part of the Financial Statements)

10. Tax

Tax charged to the income statement

	2013 £'000	2012 £'000
Current tax		
– Current period	11 784	5 136
– Prior year adjustments	3 102	(1 652)
Total current tax charge	14,886	3 484
Deferred tax		
– Origination and reversal of timing differences	6,489	8 206
– Prior year adjustments	(4 024)	(1 399)
Total deferred tax charge	2 465	6,807
Total tax charged to income statement	17 351	10,291

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

	2013 £'000	2012 £'000
Deferred tax on available-for-sale financial assets	(84)	(151)
Current tax on available-for-sale financial assets	–	(967)
Deferred tax on cash flow hedges	(715)	508
Deferred tax on actuarial gains and losses on defined benefit pension schemes	(945)	(12 359)
Deferred tax on the utilisation of tax losses	6 995	–
Total tax charged/(credited) to other comprehensive income	5,251	(12,969)

Tax on items credited to equity

	2013 £'000	2012 £'000
Current tax on distributions to holders of perpetual instruments	2 607	3 165

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

	2013 £'000	2012 £'000
Profit before tax	47,952	34,922
Tax calculated at the UK corporation tax rate of 24% (2012 26%)	11 508	9,080
Adjustment to tax charge in respect of prior years	(922)	(3,051)
Income from associate recorded net of tax in profit before tax	–	(567)
Non tax deductible expenses	992	1 032
Impact on deferred tax of corporation tax rate change	1 661	2 514
Effect of different tax rates in other countries	1 264	1,111
Income not subject to tax	(410)	(486)
Previously unrecorded deferred tax now recognised	(640)	812
Irrecoverable withholding tax	1 599	–
Non tax deductible impairment provisions	2 861	–
Other	(562)	(154)
Total tax charged to income statement	17,351	10 291

Further information about deferred tax is presented in note 21

Notes to the Financial Statements

(forming part of the Financial Statements)

II. Loans and Advances

	2013 Group £'000	2013 Company £'000	2012 Group £'000	2012 Company £'000
Loans and advances to banks				
Included in cash and cash equivalents*	65 841	10 721	151 730	91 834
Other	4 779	–	4 543	–
Accrued interest	274	274	172	172
	70 894	10 995	156,445	92,006

*Loans and advances to banks include reverse repurchase agreements of £nil (2012 £75 029 000)

Loans and advances to customers				
Loans and advances to customers – at amortised cost	675,068	639 292	888 471	852 244
Loans and advances to customers held for trading – at fair value	–	–	4 997	4 997
Allowance for credit losses	(83 821)	(80,440)	(75 804)	(72 561)
Accrued interest	8 228	8 664	7,845	8 389
	599,475	567,516	825 509	793,069

Loans and advances to customers include finance lease receivables as follows

Group	2013 £'000	2012 £'000
Gross investment in finance leases, receivable		
1 year or less	65 125	52 861
5 years or less but over 1 year	98 374	81 499
Over 5 years	4 794	3 828
	168,293	138,188
Unearned future finance income on finance leases	(27 806)	(22,399)
Net investment in finance leases	140 487	115,789

The net investment in finance leases may be analysed as follows

Group	2013 £'000	2012 £'000
1 year or less	53 906	44 287
5 years or less but over 1 year	82 196	68 101
Over 5 years	4 385	3 401
	140,487	115,789

Notes to the Financial Statements

(forming part of the Financial Statements)

II. Loans and Advances (continued)

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

	Specific £'000	Group Collective £'000	Total £'000	Specific £'000	Company Collective £'000	Total £'000
At 1 April 2012	45,993	29,811	75,804	43,755	28,806	72,561
Charge/(credit) to income statement	17,834	(5,515)	12,319	18,867	(5,430)	13,437
Amounts written off	(6,210)	–	(6,210)	(6,210)	–	(6,210)
Recoveries	1,357	–	1,357	101	–	101
Exchange movements	551	–	551	551	–	551
At 31 March 2013	59,525	24,296	83,821	57,064	23,376	80,440
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	13,761	–	13,761
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

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 £347,582,000 of financial assets to which the definition of loans and advances would apply on the reclassification date. On the reclassification date and on 31 March 2013 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	2013 £'000	2012 £'000
Carrying value of assets reclassified at 1 April	155,752	216,921
Impairments	(2,976)	(3,675)
Sale and redemptions	(70,341)	(53,605)
Repayment of revolving credit facilities	(1,152)	(1,553)
Amortisation of frozen available-for-sale reserve	6,832	5,037
Exchange and other movements	2,940	(7,373)
Carrying value of assets reclassified at 31 March	91,055	155,752

Notes to the Financial Statements

(forming part of the Financial Statements)

II. Loans and Advances (continued)

Group and Company	2013 £'000	2012 £'000
Fair value of assets reclassified at 1 April	148,118	212,466
Sales and redemptions	(70,341)	(53,605)
Repayment of revolving credit facilities	(1,152)	(1,553)
Fair value movements in the period	7,478	(1,829)
Exchange and other movements	2,617	(7,361)
Fair value of assets reclassified at 31 March	86,720	148,118

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 £10,454,000 would have been recognised in other comprehensive income in the year to 31 March 2013 had the assets not been reclassified (2012 revaluation gain of £1,846,000)

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

	2013 £'000	2012 £'000
Net interest income	2,187	2,188
Impairment losses	(2,976)	(3,675)
Loss on disposals	(1,671)	(275)
Loss before tax on reclassified financial assets	(2,460)	(1,762)

12. Available-For-Sale Financial Assets

	2013 Group £'000	2013 Company £'000	2012 Group £'000	2012 Company £'000
Debt securities	159,134	159,007	275,024	274,899
Allowance for impairment	(10,574)	(10,574)	(10,891)	(10,891)
Accrued interest	1,071	1,071	3,862	3,862
Total debt securities – at fair value	149,631	149,504	267,995	267,870
Equity securities	111,397	110,162	111,911	110,403
Allowance for impairment	(11,326)	(11,141)	(3,367)	(3,267)
Total equity securities – at fair value	100,071	99,021	108,544	107,136
Total available-for-sale financial assets	249,702	248,525	376,539	375,006

Notes to the Financial Statements

(forming part of the Financial Statements)

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

	2013 Group £'000	2013 Company £'000	2012 Group £'000	2012 Company £'000
Available-for-sale financial assets may be analysed as follows				
Debt securities				
– Listed	149,024	149,024	267,308	267,308
– Unlisted	607	480	687	562
Total debt securities	149,631	149,504	267,995	267,870
Equity securities				
– Listed	28,042	27,099	26,729	25,513
– Unlisted	72,029	71,922	81,815	81,623
Total equity securities	100,071	99,021	108,544	107,136
Total available-for-sale financial assets	249,702	248,525	376,539	375,006

Available-for-sale debt securities of £11,853,000 (2012: £32,311,000) were pledged as security for liabilities of the Company.

Equity securities include shares in Paris Orleans SCA, 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:

	2013 Group £'000	2013 Company £'000	2012 Group £'000	2012 Company £'000
Debt securities				
At 1 April	10,891	10,891	29,044	29,044
(Credit)/charge to income statement	(409)	(409)	1,322	1,322
Amounts written off	–	–	(18,956)	(18,956)
Exchange movements	92	92	(519)	(519)
At 31 March	10,574	10,574	10,891	10,891
Equity securities				
At 1 April	3,367	3,267	3,443	3,343
Charge to income statement	7941	7,856	–	–
Exchange movements	18	18	(76)	(76)
At 31 March	11,326	11,141	3,367	3,267

Notes to the Financial Statements

(forming part of the Financial Statements)

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

	2013 Group £'000	2013 Company £'000	2012 Group £'000	2012 Company £'000
At 1 April	376,539	375,006	578,706	576,053
Additions	11,051	11,051	282,186	282,054
Disposals (sales and redemptions)	(148,362)	(148,362)	(454,160)	(453,340)
Gains/(losses) from changes in fair value	21,535	21,808	(16,576)	(16,151)
Movement in allowance for impairment	(7,642)	(7,557)	(727)	(727)
Unwinding of discount	(1,748)	(1,748)	(6,157)	(6,157)
Movement in accrued interest	(2,791)	(2,791)	813	813
Exchange differences	1,120	1,118	(7,546)	(7,539)
At 31 March	249,702	248,525	376,539	375,006

13. 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)

13. 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 2013 was £20,461,000 (2012: £16,334,000). Fair value gains of £1,709,000 (2012: gains of £16,833,000) on derivatives held in qualifying fair value hedging relationships are included in net trading income. Fair value losses of £1,641,000 (2012: losses of £17,052,000) 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 liabilities 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 (2012: £nil).

The fair value of derivatives designated as cash flow hedges at 31 March 2013 was a loss of £1,117,000 (2012: gain of £4,565,000). At 31 March 2013, an unrecognised fair value loss of £336,000 (2012: gain of £2,655,000) 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 2013					
Cash inflows (assets)	211	298	—	—	—
As at 31 March 2012					
Cash inflows (assets)	827	139	—	—	—

Group and Company	Notional principal		Positive fair value		Negative fair value	
	2013 £'000	2012 £'000	2013 £'000	2012 £'000	2013 £'000	2012 £'000
Contracts held for risk management purposes						
Derivatives designated as hedges						
Fair value interest rate swaps	628,775	821,733	20,980	18,480	(519)	(2,146)
Cash flow interest rate swaps	112,980	175,000	127	4,565	(1,244)	—
Other derivatives held for risk management purposes						
OTC interest rate options	11,836	11,671	—	—	—	—
	753,591	1,008,404	21,107	23,045	(1,763)	(2,146)
Contracts held for trading purposes						
Forward foreign exchange contracts	180,479	414,356	789	997	(1,101)	(1,191)
Interest rate swaps	51,585	26,912	566	1,028	(677)	(1,029)
Exchange traded interest rate futures	5,932	5,629	54	47	—	—
	237,996	446,897	1,409	2,072	(1,778)	(2,220)
	991,587	1,455,301	22,516	25,117	(3,541)	(4,366)

Notes to the Financial Statements

(forming part of the Financial Statements)

14. Other Assets

	2013 Group £'000	2013 Company £'000	2012 Group £'000	2012 Company £'000
Accounts receivable and prepayments	116,203	78,433	111,539	83,234
Accrued income	19,795	3,275	11,421	1,875
Traded loans awaiting settlement	24,467	24,467	1,667	1,667
Other	3,780	3,766	8,775	5,095
	164,245	109,941	133,402	91,871

Accounts receivable are net of allowances of £4,904,000 (2012: £3,420,000). Accrued income is net of allowances of £868,000 (2012: £nil).

15. Investments in Associates

Group	2013 £'000	2012 £'000
At 1 April	38,510	40,121
Additions	1,768	906
Disposals	–	(3,503)
Share of results (net of tax)	3,039	3,514
(Losses)/gains from changes in fair value	(402)	711
Dividends	(1,426)	(2,509)
Exchange differences	90	(730)
At 31 March	41,579	38,510

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

Group's share of	2013 £'000	2012 £'000
Assets	149,723	120,286
Liabilities	108,144	81,776
Revenues	21,617	25,120
Results (net of tax)	3,039	3,514

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. Additions during the year relate to an increase in the Company's investment in Quintus.

The Group's interests in associates are held by the Company at historical cost of £38,379,000 (2012: £36,611,000).

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(forming part of the Financial Statements)

16. 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:

	2013 £'000	2012 £'000
Current assets	9,826	7,881
Current liabilities	5,254	4,252
Income	13,297	5,415
Expenses	4,975	7,008

17. Intangible Assets

Group	Goodwill £'000	Other intangible assets £'000	Total £'000
Cost at 1 April 2012	14,778	9,154	23,932
Disposals	–	(137)	(137)
At 31 March 2013	14,778	9,017	23,795
Accumulated impairment losses and amortisation at 1 April 2012	–	1,301	1,301
Amortisation charge	–	1,468	1,468
Impairment charge	2,500	–	2,500
At 31 March 2013	2,500	2,769	5,269
Net book value at 31 March 2013	12,278	6,248	18,526
Cost at 1 April 2011	14,778	1,000	15,778
Additions	–	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

Included within the cost of goodwill as at 31 March 2013 is £9,786,000 (2012: £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 2018 which indicate a delay in the expected future fee income related to the timing of property sales. An increased discount rate of 12 per cent (2012: 10 per cent) was applied to recognise the increased uncertainty. This analysis indicated that the goodwill was impaired and management have therefore concluded that an impairment charge of £2,500,000 should be recognised in the year (2012: £nil). The remainder of goodwill relates to various acquisitions within the Five Arrows Leasing Group.

Other intangible assets relates mainly to servicing rights recognised on the acquisition of Elgin Capital LLP, a company that provides investment management services for various investment funds. The present value of the future servicing rights will be amortised over the servicing period as the fees from servicing are recognised.

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(forming part of the Financial Statements)

18. Property, Plant and Equipment

Group	Leasehold improvements £'000	Cars fixtures and fittings £'000	Computer equipment £'000	Total £'000
Cost at 1 April 2012	50 192	18 951	33 114	102 257
Additions	1,506	3 487	378	5 371
Disposals	(107)	(2,668)	(730)	(3 505)
Exchange differences	71	213	61	345
At 31 March 2013	51,662	19,983	32,823	104 468
Accumulated depreciation at 1 April 2012	6 147	9,078	23 896	39 121
Disposals	(107)	(2 027)	(726)	(2 860)
Depreciation charge	3 286	2,389	2 297	7 972
Exchange differences	55	59	50	164
At 31 March 2013	9,381	9,499	25,517	44,397
Net book value at 31 March 2013	42 281	10,484	7,306	60 071
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

Included within the net book value of cars fixtures and fittings for the Group as at 31 March 2013 is £5 335,000 (2012 £5,266,000) relating to assets leased to customers under operating leases

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(forming part of the Financial Statements)

18. Property, Plant and Equipment (continued)

Company	Leasehold improvements £'000	Cars, fixtures and fittings £'000	Computer equipment £'000	Total £'000
Cost at 1 April 2012	47,081	1,208	27,784	76,073
Additions	1,469	297	201	1,967
Disposals	–	(129)	–	(129)
At 31 March 2013	48,550	1,376	27,985	77,911
Accumulated depreciation at 1 April 2012	4,029	835	19,647	24,511
Disposals	–	(124)	–	(124)
Depreciation charge	2,886	103	1,747	4,736
At 31 March 2013	6,915	814	21,394	29,123
Net book value at 31 March 2013	41,635	562	6,591	48,788
Cost at 1 April 2011	26,451	6,328	20,217	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	18,840	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

19. Debt Securities in Issue

	2013 Group £'000	2013 Company £'000	2012 Group £'000	2012 Company £'000
Medium term floating rate notes	–	–	58,355	–
Certificates of deposit in issue	–	–	83,365	83,365
Accrued interest	–	–	2,997	2,748
	–	–	144,717	86,113

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(forming part of the Financial Statements)

20. Other Liabilities

	Note	2013 Group £'000	2013 Company £'000	2012 Group £'000	2012 Company £'000
Accounts payable		12,267	6,781	11,292	11,235
Traded loans awaiting settlement		15,177	15,177	1,634	1,634
Defined benefit pension liabilities	22	100,294	99,091	98,585	97,341
Other liabilities		38,256	1,088	27,599	1,800
		165,994	122,137	139,110	112,010

21. Deferred Income Taxes

Deferred taxes are calculated on all temporary differences under the liability method using an effective tax rate of 23 per cent (2012 24 per cent) as this was the rate substantively enacted at the balance sheet date. Further reductions to 21% by 2014 and 20% by 2015 have been announced but have not affected these financial statements. The full effect of these anticipated changes will depend on when the timing differences reverse.

The movement on the deferred tax account is as follows:

	2013 Group £'000	2013 Company £'000	2012 Group £'000	2012 Company £'000
At 1 April	98,214	88,140	85,971	72,625
Recognised in income				
Income statement charge	(2,465)	(4,331)	(6,807)	(3,802)
Recognised in other comprehensive income				
Defined benefit pension arrangements	945	888	12,359	12,450
Available-for-sale securities				
– Fair value measurement	84	10	151	17
Cash flow hedges				
– Fair value measurement	715	715	(508)	(508)
Tax losses utilised	(6,995)	(6,995)	–	–
Exchange differences	349	–	(95)	–
Other	2,017	(1)	7,143	7,358
At 31 March	92,864	78,426	98,214	88,140

Deferred tax assets are attributable to the following items:

	2013 Group £'000	2013 Company £'000	2012 Group £'000	2012 Company £'000
Accelerated tax depreciation	10,761	5,297	10,311	6,137
Deferred profit share arrangements	30,357	24,865	29,340	24,312
Pension and other post-retirement benefits	22,807	22,791	23,889	23,889
Available-for-sale securities	(337)	(133)	17,605	17,884
Tax losses	25,135	24,322	15,525	14,922
Other temporary differences	4,141	1,284	1,544	996
	92,864	78,426	98,214	88,140

During the year deferred tax assets attributable to fair value movements on available-for-sale debt securities have been reclassified to tax losses carried forward to reflect the corporation tax treatment.

Notes to the Financial Statements

(forming part of the Financial Statements)

21. Deferred Income Taxes (continued)

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

	2013 Group £'000	2013 Company £'000	2012 Group £'000	2012 Company £'000
Accelerated tax depreciation	450	(840)	274	1 126
Deferred profit share arrangements	817	553	(3 220)	(1 071)
Available-for-sale securities	58	58	162	162
Pensions and other post-retirement benefits	(1 977)	(1 986)	(2 595)	(2 595)
Tax losses	(1 688)	(1 688)	(804)	(804)
Other temporary differences	(125)	(428)	(624)	(620)
	(2,465)	(4,331)	(6,807)	(3,802)

Deductible temporary differences relating to unutilised tax losses within the Group for which no deferred tax asset has been recognised are £351,000 (2012 £nil)

Deferred tax liabilities have not been recognised for the withholding tax 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 withholding taxes that would be payable should the retained earnings be remitted would be £nil (2012 £411,000)

22. 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 2013 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.

Notes to the Financial Statements

(forming part of the Financial Statements)

22. Retirement Benefit Obligations (continued)

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

Group and Company	2013	2012	2011
Discount rate	4.50%	4.80%	5.50%
Retail price inflation	3.40%	3.30%	3.50%
Consumer price inflation	2.40%	2.30%	2.80%
Expected rate of salary increases	4.40%	4.30%	4.50%
Expected rate of increase in pensions in payment			
Capped at 5.0% per annum	3.30%	3.20%	3.40%
Capped at 2.5% per annum	2.20%	2.20%	2.30%
Life expectancy of a pensioner aged 60			
Male	27.9	27.8	27.8
Female	29.3	28.5	28.4
Life expectancy of a future pensioner aged 60 in 20 years time			
Male	29.5	29.4	29.3
Female	29.3	29.3	29.2

Movement in defined benefit obligation

	2013 Group £'000	2013 Company £'000	2012 Group £'000	2012 Company £'000
At 1 April	575,514	574,270	507,149	505,896
Current service cost (net of contributions paid by other plan participants)	3,619	3,514	3,020	2,871
Current service cost relating to other plan participants	968	968	1,652	1,652
Interest cost	27,288	27,237	27,384	27,384
Actuarial losses	45,492	45,285	55,824	55,823
Benefits paid	(17,313)	(16,893)	(19,751)	(19,551)
Past service costs	–	–	195	195
Exchange differences	16	–	41	–
At 31 March	635,584	634,381	575,514	574,270

Movement in plan assets

	2013 Group £'000	2013 Company £'000	2012 Group £'000	2012 Company £'000
At 1 April	476,929	476,929	456,308	456,308
Expected return on plan assets	25,748	25,748	27,963	27,963
Actual less expected return on assets	33,319	33,319	(6,399)	(6,399)
Contributions by the Group/Company	15,639	15,219	17,156	16,956
Contributions by other plan participants	968	968	1,652	1,652
Benefits paid	(17,313)	(16,893)	(19,751)	(19,551)
At 31 March	535,290	535,290	476,929	476,929

Notes to the Financial Statements

(forming part of the Financial Statements)

22. Retirement Benefit Obligations (continued)

At 31 March the fair value of plan assets comprised

Group and Company	2013 £'000	2012 £'000
Equities	189,124	162,086
Bonds	79,878	70,515
Gilts and cash	103,151	111,289
Property	19,962	1,989
Hedge funds	49,768	45,965
PFI private equity and infrastructure	93,407	85,085
	535,290	476,929

The expected return on assets for the financial year ended 31 March 2013 was 5.7 per cent (2012 6.4 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 £59.1 million (2012 £21.6 million).

Amounts recognised in income statement:

Note	2013 Group £'000	2013 Company £'000	2012 Group £'000	2012 Company £'000
Current service cost	3,619	3,514	3,020	2,871
Interest cost	27,288	27,237	27,384	27,384
Expected return on plan assets	(25,748)	(25,748)	(27,963)	(27,963)
Past service costs			195	195
Total (included in staff costs)	9	5,159	2,636	2,487

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

	2013 £'000	2012 £'000	2011 £'000	2010 £'000	2009 £'000
Group					
Present value of fund obligations	632,499	572,052	503,906	507,808	351,751
Fair value of plan assets	(535,290)	(476,929)	(456,308)	(422,803)	(328,807)
	97,209	95,123	47,598	85,005	22,944
Present value of unfunded obligations	3,085	3,462	3,243	3,770	3,986
Balance sheet liability	100,294	98,585	50,841	88,775	26,930
Company					
Present value of fund obligations	632,499	572,052	503,906	507,808	351,751
Fair value of plan assets	(535,290)	(476,929)	(456,308)	(422,803)	(328,807)
	97,209	95,123	47,598	85,005	22,944
Present value of unfunded obligations	1,882	2,218	1,990	2,068	1,902
Balance sheet liability	99,091	97,341	49,588	87,073	24,846

Notes to the Financial Statements

(forming part of the Financial Statements)

22. Retirement Benefit Obligations (continued)

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

	2013 £'000	2012 £'000	2011 £'000	2010 £'000	2009 £'000
Group					
Actual less expected return on assets	33 319	(6 399)	8 373	69 327	(113 472)
Experience gains and losses arising on liabilities	(514)	(7 537)	(6 034)	2 362	444
Company					
Actual less expected return on assets	33 319	(6 399)	8 373	69 327	(113 472)
Experience gains and losses arising on liabilities	(514)	(7 537)	(6 034)	2 362	444

Amounts recognised in the statement of comprehensive income

	2013 Group £'000	2013 Company £'000	2012 Group £'000	2012 Company £'000
Actuarial losses recognised in the year	(12 174)	(11 966)	(62 224)	(62 222)
Cumulative actuarial losses recognised in the statement of comprehensive income	(175,139)	(174 951)	(162 965)	(162 985)

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	2013 Group £'000	2013 Company £'000	2012 Group £'000	2012 Company £'000
Contributions paid	9	4 994	3 069	4 094	2 059

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)

23. Contingent Liabilities and Commitments

	2013 Group £'000	2013 Company £'000	2012 Group £'000	2012 Company £'000
Guarantees				
Guarantees and irrevocable letters of credit	2 399	129 213	8 913	192 316
Commitments				
Undrawn formal standby facilities credit lines and other commitments to lend	9 927	19 792	47 840	62 092

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

Assets pledged

Group and Company	2013 £'000	2012 £'000
Investment securities	11 853	32 311

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.

24. Operating Lease Commitments

At 31 March 2013, 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:

	Premises		Equipment	
Group	2013 £'000	2012 £'000	2013 £'000	2012 £'000
Up to 1 year	15 436	14 425	237	234
Between 1 and 5 years	60 524	53 246	231	303
More than 5 years	200 496	208 601	–	28
	276,456	276,272	468	565
Company				
Up to 1 year	10 448	10 187	–	–
Between 1 and 5 years	42 568	40 585	–	–
More than 5 years	192 486	197 398	–	–
	245,502	248,170	–	–

Operating expenses include operating lease rentals of £13 892 000 (2012: £16,798 000).

Notes to the Financial Statements

(forming part of the Financial Statements)

25. Distributions

	2013 £'000	2012 £'000
Other Equity Interests		
Perpetual floating rate subordinated loan (US\$100 million)	699	575
Perpetual fixed rate subordinated loan (£75 million)	6 743	6 780
Perpetual floating rate subordinated notes (€150 million)	3 422	4 817
	10,864	12 172
Tax credit thereon	(2 607)	(3 165)
	8,257	9,007
Ordinary Shares		
Dividends paid	13,000	18,000
	21,257	27,007

The dividends per ordinary share were 23p (2012 31p)

26. 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

	2013 Group £'000	2013 Company £'000	2012 Group £'000	2012 Company £'000
Cash and balances at central banks	837 043	837 032	543 038	543 025
Loans and advances to banks	65 841	10 721	151 730	91 834
	902,884	847,753	694,768	634,859

27. Transactions with Related Parties

Group

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

	2013 £'000	2012 £'000
At 31 March		
Loans	6	3
Deposits	1 222	1 404

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)

27. Transactions with Related Parties (continued)

	2013 £'000	2012 £'000
Key management personnel compensation		
Short term employee benefits	6712	5 739
Post-retirement benefits	1	1
Other long term employee benefits	3,117	2,567

Amounts receivable from related parties of the Group are as follows

	2013		2012	
	Loans and advances £'000	Other assets £'000	Loans and advances £'000	Other assets £'000
At 31 March				
Amounts due from parent companies	34 329	806	37 666	275
Amounts due from joint ventures	–	149	21	204
Amounts due from associated undertakings	–	11 028	–	6 976
Amounts due from other related parties	8,125	14 045	5 956	26 908

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

	2013			2012		
	Deposits £'000	Perpetual instruments £'000	Other liabilities £'000	Deposits £'000	Perpetual instruments £'000	Other liabilities £'000
At 31 March						
Amounts due to parent companies	2 276	–	130	100	–	130
Amounts due to joint ventures	2 110	–	127	5 087	–	–
Amounts due to associated undertakings	2 626	–	11 493	–	–	5 464
Amounts due to pension funds	1 584	–	–	1 551	–	–
Amounts due to other related parties						
– subordinated	–	72 610	–	–	72 610	–
– other	379 121	–	7 407	303,375	–	4 991

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

	2013 £'000	2012 £'000
At 31 March		
Guarantees received from other related parties	21 465	54 672

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)

27. 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
2013						
Interest receivable	1 014	–	–	–	137	1 151
Interest payable	(48)	(20)	(47)	(12)	(4,332)	(4,459)
Fees and commissions receivable	5 000	–	5 535	–	3,807	14 342
Fees and commissions payable	–	(5 856)	(1 014)	–	(10 234)	(17,104)
Dividend income	725	2 500	1 426	–	954	5 605
Rent payable	–	–	–	–	(9 405)	(9 405)
Recoverable expenses	750	–	1 541	–	4 484	6 775
2012						
Interest receivable	1,073	–	–	–	27	1 100
Interest payable	(39)	(28)	(35)	(11)	(2 336)	(2 449)
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

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)

27. Transactions with Related Parties (continued)

Company

Amounts receivable from related parties of the Company are as follows

At 31 March	2013		2012	
	Loans and advances £'000	Other assets £'000	Loans and advances £'000	Other assets £'000
Amounts due from parent companies	34 329	806	37,665	275
Amounts due from subsidiary undertakings	122,819	19 073	98 488	9 961
Amounts due from joint ventures	–	297	–	407
Amounts due from associated undertakings	–	2 021	–	3,075
Amounts due from other related parties	8 125	13 710	5 956	26 817

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	2013			2012		
	Deposits £'000	Perpetual instruments £'000	Other liabilities £'000	Deposits £'000	Perpetual instruments £'000	Other liabilities £'000
Amounts due to parent companies	2 276	–	130	100	–	130
Amounts due to subsidiary undertakings						
– subordinated	–	51 725	–	–	51 725	–
– other	6 696	–	7 281	69 684	–	6 634
Amounts due to joint ventures	4 219	–	–	10 174	–	–
Amounts due to associated undertakings	–	–	797	–	–	1 609
Amounts due to pension funds	1 584	–	–	1 551	–	–
Amounts due to other related parties						
– subordinated	–	72 610	–	–	72 610	–
– other	379 121	–	5 978	303 375	–	3 759

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	2013 £'000	2012 £'000
Guarantees made on behalf of subsidiary undertakings	126,814	183 404
Guarantees received from other related parties	21 465	54 672

Notes to the Financial Statements

(forming part of the Financial Statements)

27. Transactions with Related Parties (continued)

Company (continued)

The Company has guaranteed £126 814,000 (2012 £125 048,000) of perpetual floating rate subordinated notes and £nil (2012 £58 355,000) 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.

Commitments provided to related parties of the Company are as follows:

At 31 March	2013 £'000	2012 £'000
Undrawn credit commitments	9 685	14 252

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
2013							
Interest receivable	1 014	3 646	–	–	–	137	4 797
Interest payable	(48)	(55)	(40)	–	(12)	(4 332)	(4 487)
Fees and commissions receivable	5 000	5 633	–	613	–	3 801	15 047
Fees and commissions payable	–	(8 231)	(11,711)	(932)	–	(10 234)	(31 108)
Dividend income	725	18 750	5,000	1 426	–	954	26 855
Rent payable	–	–	–	–	–	(9 405)	(9 405)
Recoverable expenses	750	(3 404)	–	713	–	5 569	3 628
2012							
Interest receivable	1 073	3 224	–	–	–	27	4 324
Interest payable	(39)	(3 392)	(55)	–	(11)	(2 336)	(5 833)
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

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)

28. Non-controlling Interests

	2013 £'000	2012 £'000
At 1 April	18,593	18,138
Profit attributable to non-controlling interests	4,424	6,892
Actuarial losses	(82)	(50)
Dividends	(7,996)	(5,269)
Exchange	242	(1,118)
At 31 March	15,181	18,593

29. Share Capital

	2013	2012
Authorised	199,900,000	199,900,000
Allotted, called up and fully paid ordinary shares of £1 each	57,654,551	57,654,551

30. Perpetual Instruments

	2013 Group £'000	2013 Company £'000	2012 Group £'000	2012 Company £'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)

31. 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
City Business Finance Limited (Asset Finance)	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 (2012: £43,547,000).

Notes to the Financial Statements

(forming part of the Financial Statements)

32. 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 Orleans SCA, a French public limited partnership. The accounts are available on Paris Orleans web-site at www.paris-orleans.com

33. Remuneration of Directors

	2013 £'000	2012 £'000
Directors' emoluments	1,922	1,799
Amounts receivable under long term profit share schemes	428	422
	2,350	2,221
Pension contributions to money purchase schemes	1	–
	2,351	2,221

The emoluments of the highest paid director were £1,235,000 (2012: £1,085,000)

	2013	2012
Retirement benefits are accruing to the following number of directors under		
Money purchase schemes	1	–
Defined benefit schemes	–	–

34. Events After the Reporting Period

After the balance sheet date, the Company and certain subsidiaries entered into a trust arrangement for the benefit of the NMR Pension Fund. The trust arrangement gives the pension fund security over certain Group assets which would provide up to £50 million of value to the NMR Pension Fund in the event that specific financial triggers are breached. The financial triggers relate to the Group's ongoing viability and any breach is therefore considered extremely unlikely. The Group retains control of the assets and there will be no change of treatment in the financial statements with any income continuing to be recognised in the Group's results. The trust agreement expires on 30 September 2016.

Group directory

Group directory

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