

N M Rothschild & Sons Limited

Report of the Directors and Consolidated Financial Statements
for the year ended 31 March 2010

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World Presence

The Rothschild banking group has 57 offices in 45 countries and employs over 2,800 people around the world. Through its network of subsidiaries and affiliates, the Group provides investment banking, commercial banking, treasury, merchant banking, fund management, private banking and trust management services to governments, corporations and individuals worldwide.

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North America

British Virgin Islands
Mexico City
Montréal
New York
Toronto
Washington

South America

Santiago
São Paulo

Europe and The Middle East

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

Africa

Harare
Johannesburg

Asia Pacific

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

Directors

Chairman

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David de Rothschild

Deputy Chairman

Anthony Alt

Executive Directors

Andrew Didham

Anthony Salz

Non-Executive Directors

Eric de Rothschild

Leopold de Rothschild

Peter Smith

Chairman's Statement

In this environment more than ever, objective advice built upon trusted long term relationships is of great value. I remain convinced that our business model in providing unconflicted advice of the highest quality to individuals, corporations and governments and working with established business partners around the world is a powerful combination

Chairman's Statement

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The economic storm that has swept through most of the world's developed economies has progressed from financial sector distress through to a general economic recession and, more recently, concerns around sovereign debt levels. At its root, these all stem from the spectacular growth in leverage during the last decade where today we witness unsustainable levels of indebtedness in many parts of the domestic, private and public sectors. The corresponding asset price bubbles were a reflection of apparently uncontrolled growth in debt levels.

The challenge for all those concerned with curing these economic ills is to encourage the reduction in debt levels whilst not snuffing out the early signs of economic recovery and growth. There are significant dangers in the understandable policy reaction to shortcomings in some parts of the financial sector. Changes to the regulatory and legal structures underpinning the sector are vital for long term economic health, but these must be introduced proportionately and progressively in a manner that allows the large financial institutions that provide finance to business to continue to support recovery, growth and industry in this very fragile environment. I believe this difficult balancing act is now well understood by policy makers but must be reiterated.

There is a corresponding danger in progressing structural change in the financial services industry focussed upon, as it must, the largest institutions. Smaller financial businesses provide competition and diversity for the general benefit of consumers. One size does not and should not fit all. Proportionality and flexibility are important building blocks in the design of new systems and structures.

In this environment more than ever, objective advice built upon trusted long term relationships is of great value. I remain convinced that our business model in providing unconflicted advice of the highest quality to individuals, corporations and governments and working with established

business partners around the world is a powerful combination. I am also pleased to note the establishment this year of our joint fund to seek investment opportunities in Asia alongside both Jardine Matheson and Exor, the investment arm of the Agnelli family.

We are also convinced of the need to have a geographic spread within our business operations, particularly in the growing markets in Asia and South America. I am delighted with the development of our business in these regions where we have assisted clients in a number of benchmark, cross border transactions.

Our business performance was pleasing last year, though in the context of reduced levels of corporate transactions across the globe and the challenging environment. Our investment banking business provides advice on mergers and acquisitions, privatisations, valuations, business strategy and general financing. There has been an understandable reduction in corporate transaction activity as businesses and sponsors have stood back from markets. In compensation, we have been pleased by the significant expansion in our financing advisory business as we have assisted clients in debt restructuring and in debt or equity advice as they have sought to rebuild their balance sheet strength. Revenues from financing advice represented nearly half of our global advisory revenues last year. We have also advised many governments in their efforts to

Chairman's Statement

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support businesses and the economic recovery. Perhaps of note was our advice to the federal government in its support to the automobile industry in the United States.

Outside of the UK bank, our private banking business has served clients well through this difficult period and has been rewarded with strong growth in the assets they have entrusted for management. Our private banking business provides wealth structuring, investment management, lending, fiduciary and trust services to clients from its main operations in London, Paris, Zurich, Frankfurt and Guernsey. The business has experienced a 22 per cent increase in funds under management in the year and, more importantly, good investment performance for our clients focussed upon wealth preservation. Industry recognition has followed this performance, being awarded Private Bank of the Year by three independent organisations.

The newly established Merchant Banking division seeks to make selected private equity and debt investments in Europe and Asia, principally alongside partners around the world. A first European Fund was raised during the year and successfully closed during March. Great opportunities exist in the markets for private equity and the firm is extraordinarily well positioned to identify such opportunities through its network of offices and bankers throughout the world.

In these difficult financial conditions, the group has repositioned its assets and now some 40 per cent of group assets are held in cash or other high quality liquid assets. In the UK bank, some half of all assets are held in high quality liquidity. Balance sheet leverage, excluding cash resources, is only 3.7 times and in the UK bank is 4.2 times. The focus in our commercial banking business has been to closely manage our secured commercial credit portfolio to optimise returns as the

economy recovers. This has proved a successful strategy and the progressive reduction in balance sheet credit exposures has been impressive. The group has not participated in high volume trading markets for many years and is not exposed to significant market risks. The group's solvency ratio is greater than 15 per cent and in the UK bank stood at 18.5 per cent at year end, well above regulatory minima. The financial strength of the group underpins our confidence that we are well positioned to benefit from the progressive recovery over the coming years.

I announced in February this year the appointment of Nigel Higgins as Chief Executive of the Rothschild group. I believe in the absolute necessity to provide timely succession planning in all businesses, not least a family controlled business. I am very pleased that from within the cadre of longstanding executives in the group I was able to choose a business leader of such experience and standing. I remain as Chairman and I am sure that all shareholders join me in wishing Nigel every success in the future.

I should like to thank all of the Board members who have stepped down from the Board this year. In particular I should like to thank Sir Clive Whitmore who served on this Board as a non-executive director for some 16 years following a very distinguished career in public service, Lord Guthrie, and Sir Graham Hearne who served as a non-executive director for some 40 years. Their wise counsel will be missed.

Finally, I would like to thank all our staff for their hard work and professionalism over the last year.

David de Rothschild
27 July 2010

The Chairman's statement refers to the Rothschilds Continuation Holdings AG group, the holding company of the Rothschild banking businesses. Some of the businesses mentioned in the statement, particularly Private Banking and Merchant Banking are conducted outside N M Rothschild & Sons Limited.

Business Review

Financial Review

Results overview

The consolidated financial statements of the N M Rothschild & Sons Limited group ("the Group") continue to reflect the dislocated financial market conditions following the global financial crisis and deterioration of the wider economy

Coordinated action by governments and central banks around the world has headed off a global depression and restored some measure of confidence in key financial markets. Whilst recovery from recession in the developed economies, including the UK, is becoming evident it is likely to remain fragile and structural changes to deposit and capital markets resulting from the crisis are likely to be a permanent feature of the new landscape. Every expectation is for an extended period of low interest rates and continued flight to quality by investors.

The Group's profit before tax for the year ended 31 March 2010 was £137.9 million, compared with £50.5 million last year, operating income benefiting from a £133.7 million surplus arising on the reclassification of perpetual subordinated liabilities to equity. The consequent revaluation surplus which, in effect, represents the capitalised value of past funding arrangements which "locked in" very low cost regulatory capital in perpetuity, is explained in note 24 to the accounts. Excluding this one-off item, profit before tax for the year ended 31 March 2010 was £4.2 million.

During the year, the Group's investment banking business has seen declining M&A revenues in most regions due to the global fall-off in M&A activity, but this has been fully compensated by a particularly strong performance in our financing advisory business comprising debt advisory, restructuring and equity advisory services.

Rothschild remained the most active M&A house in Europe for the eighth year running and has developed the world's largest and most active independent financing advisory business.

In common with all commercial banking businesses, 2009 has proved to be a challenging year. The portfolio of assets, which is largely secured, has performed comparatively well in difficult market conditions. Across the three businesses, impairment levels have reduced throughout the year and almost all borrowers are performing above the levels they experienced in 2008.

The profit for the financial year attributable to shareholders was £111.6 million (2009 £31.0 million), after non-controlling interests of £24.5 million (2009 £10.5 million).

The Group has been successful in managing its liquidity since the beginning of the crisis in financial markets in August 2007. The diversity and maturity of the funding base has been extended and reductions have been made in the size of the banking and treasury books. These actions have progressively strengthened the Group's capital ratios and reduced leverage. The risk asset ratio was 18.5 per cent at 31 March 2010 and the overall leverage ratio of assets (excluding cash) to equity is only 4 times.

Income

Total operating income for the year was £525.9 million (2009 £446.1 million). Excluding one-off items of £133.7 million this year and £33.4 million profit resulting from the sale of a freehold property last year, operating income was £20.5 million or 5 per cent lower year-on-year.

Changed conditions in international credit markets since mid 2007 have had a significant impact on the Group's banking activities. A combination of a reduction in loans and advances to customers and debt securities, higher funding costs and reduced income on free funds as general interest

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

rates have reduced, contributed to a 46 per cent decrease in net interest income to £26.3 million (2009: £48.8 million)

Net fee and commission income increased during the year to £352.1 million (2009: £340.4 million) against a backdrop of a fall-off in M&A activity. The major proportion of fee income is derived from Investment Banking, which saw a reduction in M&A revenues as global corporate activity declined, offset by a strong performance from financial advisory services. Financing advisory revenue represents an increasing proportion of our total revenues as we broaden and strengthen our advisory capabilities. Rothschild Australia, which was acquired on 30 March 2009, contributed £12.7 million net fee and commission income in the current year.

Rothschild's strategy has been to develop a more resilient investment banking franchise by creating a broader spread of business by product, by sector, and by geography. The strategy continues to be focused around independent, objective advice, maintaining long term relationships with our clients, leveraging our global franchise, breadth of advice across M&A, debt and equity capital

markets and providing a creative environment for top talent. The business operates on a global basis in co-ordination with other Rothschild group companies and across a full range of sectors.

Trading conditions continued to be difficult for companies across the loan portfolio and this has resulted in additional provisions, although the rate of deterioration in the latter half of the year has reduced markedly. There have been £57.6 million of impairment losses (2009: £83.2 million), including an additional £11.1 million of collective impairment provisions.

Expenses

Operating expenses increased by £20.9 million to £326.2 million, largely due to a one-off credit of £19.1 million in the prior year due to changes to members' benefits in the defined benefit section of the group pension scheme and the inclusion of Rothschild Australia expenses of £14.6 million for the first time this year. Excluding these items, total operating expenses reduced by £12.8 million (4 per cent) year-on-year, principally due to a decrease in directors' and employees' profit share in line with lower business performance. Profit

Business Review

share payments reflect the performance of the Group's businesses and provide a significant degree of flexibility in the cost base

Taxation

The Group's tax charge for the year ended 31 March 2010 was £1.8 million (2009 £9.0 million). The low effective tax rate was principally due to the surplus arising on the extinguishment of financial liabilities not being subject to taxation.

Balance sheet

Total assets at 31 March 2010 stood at £3,231 million, a reduction of £730 million (18 per cent) from the prior year. The reduction is largely a result of asset repayments on maturity and disposals. As a result, the overall leverage of the balance sheet has been reduced to a low level as a proactive reaction to the uncertain economic environment.

Against the backdrop of what we believe to be a somewhat fragile recovery in market confidence the Group has continued to build and maintain a liquid balance sheet in line with its policy on liquidity risk. The balance sheet is therefore still very liquid with cash balances replacing treasury stocks on the asset side combined with the selective disposals of banking assets, while funding has been bolstered by the renewal of committed funding lines. This approach has had an adverse impact on profits within the Banking business due to reduced business volumes, higher funding costs and lower margin income from a smaller book. Nevertheless, improvements in margins are helping to some extent to offset increased funding costs.

Cash at central banks and other banks have been maintained at c. £1 billion, representing 31 per cent (2009 27 per cent) of the balance sheet footings at year end.

NMR's requirement for wholesale funding has reduced through the renewal of specific facilities from bank relationships and a retail deposit initiative launched in June 2009. This retail fixed deposit offer has raised significantly more than originally envisaged, underlining the strength of the Rothschild brand. Liabilities due to customers have increased from £663 million to £1,236 million.

Shareholders' equity has increased to £384.0 million (2009 £291.3 million), primarily due to the surplus arising on the reclassification from liabilities to equity interests of perpetual subordinated liabilities. During the year the downward revaluation of securities through reserves (after tax) has recovered from £125.7 million to £63.7 million, whilst actuarial losses on defined benefit pension schemes have increased from £54.6 million to £128.4 million. A reconciliation of movements in shareholders' equity is provided on page 44.

Asset quality

It is the Group's policy to maintain a diverse and granular asset book, spread across sectors and geographies (though principally in the UK and continental Europe). The following table summarises the Group's treasury and banking assets as at 31 March 2010, showing asset type and diversity.

Treasury assets comprise primarily central bank reserves and gilts (£0.9 billion), short term interbank lending (£0.2 billion) and highly rated marketable securities (£0.5 billion), held for the management of liquidity. Together, Treasury assets represent some 49 per cent of total assets. Banking assets are spread between our main business areas of natural resources, investment property finance, leveraged finance and asset finance. The banking book is largely secured on a wide range of collateral types.

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Treasury and banking assets as at 31 March 2010

	Net carrying value 2010 £m	2010 %	Net carrying value 2009 £m	2009 %
Primary liquid assets				
Central bank reserves	811	30%	572	16%
UK government securities	105	4%	—	—
	916	34%	572	16%
Other liquid assets				
Short term interbank lending	183	7%	497	14%
Highly rated marketable securities	484	17%	890	26%
	667	24%	1,387	40%
Other securities	61	2%	47	1%
Loan assets				
Property - senior	410	15%	486	14%
Property - mezzanine	62	2%	63	2%
Leveraged finance - senior	268	10%	382	11%
Leveraged finance - mezzanine	34	1%	37	1%
Natural resources	126	5%	239	7%
Five Arrows Finance	115	4%	137	4%
Other lending	73	3%	125	4%
	1,088	40%	1,469	43%
Total	2,732	100%	3,475	100%

The Group has been reducing the size of the commercial banking loan book and marketable assets portfolio, and focusing more on debt fund management and deposit-taking. In the light of the current economic outlook there has been a rebalancing of the banking business into fund management activities and the Group has adopted a very selective approach to the writing of new banking business. Asset sales remain difficult in the current environment although the loan book has reduced in the year.

Total loans at 31 March 2010 stood at £1,088 million, a reduction of £381 million (26 per cent) from the prior year. The reduction is largely a result of loan repayments and asset disposals.

The Company and Group do not have any exposure to either US sub-prime mortgage lending or structured credit derivatives.

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

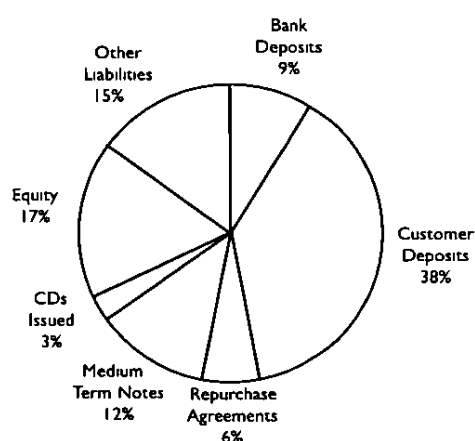
Funding and liquidity

During the year the Group took advantage of the opportunity presented by the development of a sophisticated market in retail term deposits to diversify further its funding sources with the very successful launch of two-year and three-year fixed-rate deposit products in the UK. Developed under the "Rothschild Reserve" brand this strategy augments the wider Group's existing private banking services.

Business Review

The funding base of the Group is well diversified both by source of funds and duration. All customer loans are funded by customer deposits. The funding base as at 31 March 2010 is summarised below.

Consolidated liabilities as at 31 March 2010



The Group expects to meet fully the requirements of the new regulatory liquidity maintenance and reporting regime to which it will be subject from 1 October 2010. The Group remained significantly in surplus to regulatory liquidity guidelines during the year and maintained its membership of the Bank of England's Special Liquidity Scheme and H M Treasury's Credit Guarantee Scheme.

As at 31 March 2010 the Group held primary liquidity of £811 million with the Bank of England in the form of central bank reserves and £105 million of UK government securities equivalent in total to 28 per cent of its balance sheet. Other short-term cash balances amounted to £183 million.

Capital

Total equity at 31 March 2010 was £536.7 million compared to £316.7 million at the previous year end. The increase is largely due to the effect of

the reclassification from liabilities to equity interests of perpetual subordinated liabilities, which increased equity non-controlling interests by £124.3 million and retained earnings by £133.7 million. Movements on shareholders' funds are analysed in the consolidated statement of changes in equity on page 44.

Property developments

As reported last year, the Company vacated the New Court building, which has been demolished and which will be replaced with a new building designed by the internationally-acclaimed architect Rem Koolhaas. The Company has entered into a 25 year lease of the building from a fellow group company, which is redeveloping the site. The redevelopment project is on schedule and within budget with expected completion in 2011.

Business Review

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Operating Divisions

Investment Banking

Overview

Investment Banking globally provides a wide range of advisory services to its clients, including advice on mergers and acquisitions (M&A), privatisations, valuations, strategic advice and financing advice, including advice relating to debt, equity and restructuring solutions. Advice is provided in both domestic and cross border situations.

Our approach is characterised by combining in-depth global sector knowledge with a detailed understanding of local markets. We place a strong emphasis on developing trusted long term relationships with clients and a significant proportion of our revenue is from repeat business, evidencing the strength of our relationship driven approach, free from potential conflicts.

Our business has grown significantly in recent years and now represents a truly global scale franchise. We employ nearly 950 bankers worldwide, (with over 300 outside of Europe), and have an established presence in 49 offices in 38 countries across the globe.

During the year, despite the challenging market environment, we have continued to grow the

**Working together, creating
intelligent solutions and
delivering advantage**

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

Rothschild M&A 2009 league table
rankings by geography

Country/ Region	Rank by number	Rank by value
Worldwide	7	11
Europe	1	9
UK	2	12
France	1	5
Germany	4	6
Italy	4	6
Spain	7	14
Nordic	3	1
Central & Eastern Europe	1	3
Russia	8	6
Australia	6	6

Completed deals

Source Thomson Reuters/Dealogic

business. Notable developments have been the establishment of a new office in Doha, a new exclusive partnership in South America, and a number of key senior hires, including Senior Advisers.

The Group's Investment Banking business has seen a decline in M&A revenue during 2009, against a backdrop of significantly lower global market activity. The impact of the downturn on total revenue was, however, mitigated by an increase in activity from our Financing Advisory franchise (which includes our debt advisory and restructuring, and equity advisory teams).

The Group's Investment Banking business, which is conducted in Europe, the Middle East and Australia, is reviewed below.

M&A review of the year

During 2009, we were ranked No. 7 for global M&A advisory by number of transactions, having advised on 219 completed deals worldwide totalling US\$201 billion in value.

Business Review

Europe

In Europe, during each of the last eight years Rothschild teams have worked on more M&A transactions than any other investment bank. Rothschild was the No. 1 ranked investment bank by number of deals for European M&A advice in 2009 in the food, drink & agriculture, financial institutions, healthcare, industrials, aerospace & defence, automotive, chemicals, telecoms and transport sectors. We also held top 5 positions by number of deals in the business services, consumer products, retail, building materials, engineering & electronics, steel, infrastructure, oil & gas, property, media & technology, and utilities sectors.

Rothschild received the following European awards during the year:

- ☐ The Banker – European M&A Deal of the Year (Volkswagen/Porsche) and Europe Equities Deal of the Year (Cable & Wireless),
- ☐ FT & mergermarket – Mid market Financial Adviser of the Year (3rd consecutive year),
- ☐ Euromoney – Best Sovereign Adviser,
- ☐ Private Equity International – Best M&A Adviser in Europe (2nd consecutive year), and
- ☐ Euroweek – Best LBO Advisory Bank of the Year

Our UK team advised on completed M&A transactions totalling €20.1 billion in value and was ranked No. 2 by number of deals. Transactions included advising:

- ☐ Vattenfall on the €10.3 billion acquisition of Nuon PLB,
- ☐ Cable and Wireless on the £4 billion demerger into two operating companies,
- ☐ Lion Capital and Blackstone Group on the £2.6 billion disposal of 100 per cent of Orangina Schweppes to Suntory Holdings,

- ☐ Canadian Pension Plan Investment Board on the A\$1.37 billion offer for Macquarie Communications Infrastructure Group,
- ☐ Bridgepoint on the £955 million sale of Pets at Home to KKR,
- ☐ Venture Production in their defence of a hostile final cash offer from Centrica Resources (UK), and
- ☐ Eircom Share Ownership trust in relation to STT Communications' €4.1 billion recommended offer for the entire issued share capital of eircom Holdings by way of a Scheme of Arrangement

In France, Rothschild advised on completed M&A transactions totalling €40.8 billion in value and was ranked No. 1 by number of deals and No. 5 by value. We received Global Finance Magazine's award for France Investment Bank of the Year. Notable projects during 2009 included advising:

- ☐ Credit Agricole on their exchange of North African assets with Attijariwafa Bank,

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- Cofidis (3 Suisses International) on the sale of Cofidis and Monabanque to Crédit Mutuel,
- On the merger between Banques Populaires and Caisse Nationale des Caisses d'Epargne,
- Electricité de France on the US\$4.5 billion acquisition of 49.99 per cent of the nuclear activities of Constellation Energy, and
- Alstom on their €4.1 billion joint acquisition with Schneider of Areva's transmission and distribution business

In Germany, our M&A team has had a highly successful year and received the Acquisitions Monthly M&A Adviser of the Year 2010 award. Notable transactions included advising

- Volkswagen on the creation of an integrated automotive group with Porsche. This transaction received the Acquisitions Monthly Domestic M&A Deal of the Year 2010 award as well as The Banker European M&A Deal of the Year 2010 award,
- Integra KGaA (a consortium of several utilities) on the €2.9 billion acquisition of Thuega from E.ON Ruhrgas/E.ON,
- Advisor to the family office of the Mittal family on the acquisition of Escada Group,
- Authentos Group on the disposal of Bundesdruckerei/Authentos to the Federal Republic of Germany, and
- Marcol International and Advent International on the acquisition of Median Kliniken

In Italy, Rothschild was among the leading advisers on both large and mid-size transactions, further increasing its presence in the oil & gas, consumer and industrial sectors while continuing its leadership in financial institutions.

Rothschild also received awards for the Best Banking M&A Deal (for GE's acquisition of Interbanca)

and Best International Investment Bank in Italy from Milano Finanza magazine in 2009.

Our Italy team advised on the following notable M&A deals

- Eni on the disposal of Italgas and Stoccaggi Gas Italia to Snam Rete Gas for €7.2 billion,
- Intesa Sanpaolo on the disposal of the securities services business to State Street Corp for €1.8 billion,
- ERG on the creation of a joint venture with Total in the Italian marketing and refining downstream business for €1.4 billion, and
- Finmeccanica on the €1.2 billion strategic partnership with Sukhoi

In Spain, Rothschild advised on announced transactions totalling €8.2 billion in value including

- Confide and Catalana Occidente, shareholders of Grupo SAR, on the disposal of a 70 per cent stake in the company to Palamon Capital and G Square,
- Metrovacesa, Spain's No. 1 real estate company by assets value, on the disposal of the car park subsidiary Metropark Aparcamientos to The Interparking Group, one of Europe's leading off-street car park operators,
- Barilla, the leading Italian food group, on the disposal of the Spanish bakery subsidiary La Bella Easo to Panrico,

Business Review

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

- Banco de Santander and Gas Natural on the disposal of the combined 37.5 per cent stake in CEPSA, Spain's second largest integrated oil and gas company, for a total consideration of €3.2 billion, and
- Suez Environnement on the acquisition of full control of Sociedad General de Aguas de Barcelona for a total consideration of €946 million and simultaneous disposal of Adeslas for €687 million

2009 was a breakthrough year for Rothschild in the Nordic region – advising on many of the major transactions propelled it to being ranked No. 1 M&A adviser in the Nordic region by value. The year saw Rothschild launch its permanent office in Stockholm and advise three out of the four major Nordic governments on the financial crisis. Notable M&A advisory mandates included

- The Danish Ministry of Transport in relation to the merger between Post Danmark and Posten AB,
- The Government of Sweden in relation to its 19.9 per cent stake in Nordea and participation in the €2.5 billion rights issue, and
- Rolls-Royce on the acquisition of a 33 per cent stake in ODIM from Aker Solutions and subsequent recommended voluntary offer for ODIM

Levels of activity within Central, Eastern Europe and Turkey rose with the challenges of the global economic environment and many of our

competitors retrenching. The complexities of the region were emphasised with certain national economies either performing well, such as Poland and Turkey, or facing major sovereign restructurings, such as Estonia, Hungary and Ukraine.

Rothschild was awarded Balkan Adviser of the Year by *Acquisitions Monthly*, and CEE M&A Deal of the Year by *emeafinance* for the sale of Zentiva.

Notable transactions included

- In Lithuania, advising the Board of TEO on the offer by TeliaSonera for the outstanding shares,
- In Poland, Associated British Foods on the disposal of British Sugar Overseas Polska,
- In Belarus, advising on the disposal of BPS to Sberbank, one of the early large privatisations in the country,
- In Romania, advising the shareholders of Ozone Laboratories Group on the sale of assets to Advent's local pharma business, Labor Med,
- In Greece
 - Emporiki Bank Credit Agricole on the sale of National Fertilisers Industries,
 - Hellenic Petroleum on the acquisition of BP's retail business in Greece,
 - Cosmote on the acquisition of the Romanian mobile business ZAPP, and
- In Turkey, advising Anadolu Efes on acquiring shares in EFES Breweries International

Our business in Russia continues to go from strength to strength, including being engaged by Rusal, the world leading aluminium producer, on the US\$17 billion restructuring and subsequently as independent equity adviser on its Hong Kong IPO (the first ever Russian company to list in Asia). Notable M&A transactions during the year included advising

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- ☐ Telenor, opposite Altimo, on their US\$29.5 billion merger of OJSC VimpelCom and Kyivstar, which was awarded *emeafinance* magazine's M&A deal of the year in EMEA,
- ☐ Daimler on the establishment of its long term partnership with Kamaz, and
- ☐ Alstom on their strategic partnership with Transmashholding

Australia

In Australia, Rothschild continues to focus on specific industry sectors where we believe we can combine global knowledge with expertise of the local market, primarily natural resources, utilities, infrastructure, industrials and consumer products

Notable deals concluded in the year included advising

- ☐ The Queensland Government (ongoing advisor) on their assets sale programme which includes Forestry, Ports, Rail and Toll roads,
- ☐ Royal Dutch Shell on the US\$3.4 billion joint offer with PetroChina Company for Arrow Energy
- ☐ ABN AMRO on the sale of their interest in Allegro Private Equity Fund 1,
- ☐ Macquarie Leisure Trust Group – adviser to the Independent directors on the internalisation of the management agreements as well as a A\$60 million equity raising, and
- ☐ Geely Automobile Holdings on the A\$48 million acquisition of the assets and business of Drivetrain Systems International from appointed Receivers and Managers

Debt advisory and restructuring review of the year

In Debt Advisory, our teams determine the right debt objectives and strategy, select the right products and providers and transact on the best terms, on behalf of our clients. In 2009, Rothschild received the following awards in recognition of its market leading practice

- ☐ Acquisitions Monthly award for Debt Advisory House of the Year (for the 2nd consecutive year),
- ☐ The Treasurer award for Loan of the year >£750 million Barratt Developments, and
- ☐ The Treasurer award for Loan of the year <£750 million Marstons

In Restructuring, Rothschild has unparalleled visibility on the restructuring deals being done today, based on the team's global scale, market leading position and integration with the most active M&A team in Europe. The team has unsurpassed expertise in structuring deals for today's market, engaged in debtor, sponsor, creditor representation, using state-of-the-art technology. The team advises on restructuring solutions including debt for equity swaps, new money injections, debt to hybrid, convertible bond restructurings, deleveraging disposals and mergers and rescue rights issues.

In 2009, the restructuring team received numerous awards in recognition of its market leading franchise including the following

- ☐ Thomsons Reuters Acquisitions Monthly Restructuring Adviser of the Year,
- ☐ Euroweek Restructuring House of the Year,
- ☐ Dow Jones Financial News European Restructuring House of the Year,
- ☐ The FT's Banker IB Awards for Most Innovative in Corporate Restructuring, and

Business Review

- IFR EMEA Restructuring Deal of the Year
IMO Carwash

During the year, Thomson Reuters released their inaugural restructuring league tables for 2009 Rothschild rankings were as follows

- Global Ranked 2nd by number and 6th by value of completed deals,
- US Ranked 3rd by number and 8th by value of completed deals,
- EMEA Ranked 1st by number and 2nd by value of completed deals, and
- Asia-Pacific & Japan Ranked 5th by number and 2nd by value of completed deals

In the UK, significant debt advisory mandates completed during the year included advising

- Yell Group on a covenant re-set on c £3.9 billion of syndicated bank facilities involving 330 lenders,

- Taylor Wimpey on the renegotiation of its £2.5 billion debt facilities comprising bank debt, US private placements, and Eurobonds,
- Smurfit Kappa Group on a set of amendments to its €3.6 billion banking facilities,
- First Group on a technical covenant amendment on £2 billion of debt facilities and the issue of £200 million bonds due September 2024 and £350 million bonds due April 2021,
- Investcorp on a US\$575 million combined refinancing and forward start facility,
- Persimmon on resetting its financial covenants relating to £800 million committed banking facility and US\$950 million of debt private placements, as well as negotiating a £322 million forward start facility, and
- Northgate on its £880 million refinancing

Successful significant restructuring mandates in the UK and Ireland included advice to

- The Government of Ireland Department of Finance on advice in relation to the creation of a €77 billion bad bank and extended liability scheme,
- The UK Government on financial restructuring negotiations with Jaguar Land Rover,
- Gala Coral mezzanine debtholders on restructuring options related to €2.7 billion of debt facilities,
- McCarthy & Stone Group on a £980 million full balance sheet restructuring involving the first use of a pre-pack and UK scheme,
- Songbird Estates on the US\$880 million capital restructuring of Canary Wharf, and
- Dar Capital on the restructuring of Aston Martin

Business Review

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In France, significant debt advisory and restructuring mandates included advising

- ☐ Autodistribution Group on the restructuring of its €550 million outstanding debt facilities by pre-packaged Sauvegarde,
- ☐ Printemps €765 million debt restructuring,
- ☐ Via Location on its covenant reset on €350 million of LBO debt,
- ☐ Rexel on the renegotiation of its €3.7 billion of indebtedness,
- ☐ Materis and sponsor Wendel on a €2.1 billion LBO debt restructuring, and
- ☐ Kaufman & Broad and sponsor PAI Partners on a €1.2 billion LBO debt restructuring

In Germany, mandates included advice to

- ☐ KION Group on its €3 billion covenant reset,
- ☐ Siemens on the stapled financing for the disposal of ADB to Montagu,
- ☐ PAI Partners and FTE Automotive on a €275 million covenant amendment,
- ☐ Oystar Holding on the amendment of the €250 million financial restructuring, and
- ☐ SAF Holland Group on the restructuring and extension of its €316 million senior debt facilities

In Italy, Rothschild has further consolidated its market leadership spanning debt advisory and restructuring advising on a significant proportion of the scale deals in the market

- ☐ Adviser to the Extraordinary Administrator on the €1.1 billion disposal of Alitalia's main assets to CAI out of insolvency,
- ☐ Seat Pagine Gialle on negotiating a waiver in respect of its €1.5 billion senior debt facilities and the issue of €550 million senior secured bonds,

- ☐ Ferretti on its €1.2 billion debt restructuring,
- ☐ Tiscali on the restructuring of its €790 million indebtedness,
- ☐ Koelliker Group on its €670 million financial indebtedness restructuring, and
- ☐ Comifar Group on the renegotiation of its €900 million financial indebtedness

In Spain, the debt advisory and restructuring business gained significant market share including advising on the following mandates

- ☐ Permira and its portfolio company Dinosol, in the amendment of Dinosol's €400 million debt facilities, and
- ☐ Fipar/HoldCo, subsidiaries of the Moroccan Caisse des Dépôts et de Gestion, on the reorganisation of the share capital of MediTelecom and on their acquisition, alongside FinanceCom, of 64.36 per cent of MediTelecom share capital from Portugal Telecom and Telefonica, together with their outstanding shareholder loans in MediTelecom for a total consideration of €800 million

In the Middle East, the fourth full year of operations saw continued successful growth in terms of both mandates and effective geographic coverage across the GCC, with a full service M&A and Financing Advisory team operating between Abu Dhabi, Dubai and our new office in Doha, Qatar

Notable Restructuring transactions include advising

- ☐ Dubai World on its US\$26 billion financial restructuring, and
- ☐ the Omani Investment Fund on the restructuring of one of its real estate assets

Business Review

Equity advisory review of the year

Our Equity Advisory bankers possess extensive experience in initial public offerings, capital raisings, dual track exits, block trades, convertible and exchangeable bonds. We keep close to the market through a direct dialogue with institutional investors and other market participants, via our corporate brokerage desk in Paris for continental European investors, our independent analysis of equity transactions as they happen and analysis of sell-side research view from multiple brokers.

Our Equity Advisory team advised on a number of significant transactions, including advising

- ☐ The Government of Denmark on its DKK100 billion scheme to recapitalise banks and mortgage institutions,
- ☐ Wolseley on a £1 billion capital raising via a £270 million placing and £780 million rights issue,
- ☐ Songbird on a £880 million issue of ordinary and preference shares,
- ☐ Yell on a £660 million firm placing and open offer,
- ☐ DGSi on a £311 million new equity issue including a £100 million firm placing and a £211 million rights issue,
- ☐ Premier Foods on a £404 million equity fundraising,
- ☐ PPR on the IPO of subsidiary CFAO,
- ☐ Spohn Cement on the €4.4 billion combined rights issue and secondary share placing of Heidelberg Cement. The transaction received the IFR 2009 EMEA Equity Issue of the Year award, and
- ☐ EFG Eurobank of Greece on its Exchangeable Bond

Commercial Banking

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The Group's Commercial Banking activities are confined to the Commercial Property, Leveraged Finance and Natural Resources sectors. The portfolio is focused on mid market UK property companies, the larger European leveraged buyouts and mid-size global mining companies. In common with all commercial banking businesses, the year to March 2010 has proved to be challenging. The portfolio of assets is largely secured and has performed in line with expectations in difficult market conditions. Across the three businesses, impairment levels have reduced in the second half of the year with an impairment charge of £13.6 million compared to £44.0 million in the first half.

The Commercial Property business provides medium term funding secured on commercial property throughout the UK, the underlying lending decision is made based upon the certainty over future rental flows.

The Leveraged Finance team is a participant in senior and mezzanine debt within leveraged buy-outs across UK and Western Europe.

Business Review

The Natural Resources team provides corporate and project financing to international mining and metals companies and also provides structured commodity financing to natural resource companies in emerging markets

In addition to the Commercial Banking business we continue to operate the Five Arrows Finance business, which provides a range of asset financing facilities to companies in the UK, including leasing and asset-based lending. This business has maintained a robust performance throughout the year, based upon improving margin income and low levels of impairment.

Over recent years the banking business has diversified into managing loan assets for third party investors. At present this includes both senior debt and mezzanine funds, along with the portfolio of investment properties managed through Lanebridge.

Finally, during the year we launched Rothschild Reserve, a deposit-taking business, which complements the existing private client activities of the Rothschild Group. There have been two Rothschild Reserve deposit offers to date and further products are planned.

Risk Management

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

The responsibilities and membership of the Board Committees involved in the oversight of risk management are set out on pages 34 and 35.

Credit Risk

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

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

Market Risk

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

We use financial instruments to manage our exposure to market risks and to take or alter our views on future movements in exchange rates,

Business Review

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

interest rates and volatility levels. Interest rate derivatives are used to hedge interest rate exposures arising from our lending and corporate treasury activities.

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

Liquidity Risk

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

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

Operational Risk

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

Other Material Risks

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

Report of the
Directors

Committees

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

Independent
Auditors' Report

Report of the Directors

The Directors present their Directors' report and financial statements for the year ended 31 March 2010

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Principal Activities and Business Review

N M Rothschild & Sons Limited ("the Company") and its subsidiary undertakings (together with the Company, "the Group"), provide a comprehensive range of banking and financial services. The Company's principal place of business is at New Court, St Swithin's Lane, London, EC4P 4DU. A review of the activities of the Group for the year, including an indication of likely future developments, is contained in the Chairman's Statement on pages 9 and 10 and the Business Review on pages 13 to 27.

Results and Dividends

The profit for the financial year attributable to shareholders after tax and non-controlling interests was £111,603,000 (2009 £30,985,000). This amount has been dealt with as follows:

	2010 £'000	2009 £'000
Ordinary dividends paid	30,000	—
Transfer to reserves	81,603	30,985
	111,603	30,985

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 £433,000 (2009 £439,000) was charged against the profits of the Group during the year in respect of gifts for charitable purposes. No political contributions were made during the year.

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

Report of the Directors

Rothschild in the Community

Through the Rothschild in the Community programme, our people have continued to give their time to the support of local schools and community organisations. 30 per cent of UK staff volunteered at least once this year, with many people participating on an ongoing basis. Programme highlights have included the launch of a successful Young Enterprise scheme at South Camden Community School, and the development of a new 'transition mentoring' initiative designed to support Tower Hamlets children as they make the move from Old Palace Primary School to Bow School of Maths and Computing. We continue to offer senior Rothschild mentors to teachers and managers at our partner schools, in the recognition that both mentor and mentee will gain new insights and fresh perspectives through this process.

We are delighted recently to have been awarded a Business in the Community 'Big Tick' in recognition of our long-term commitment to raising aspirations and achievement at our partner schools.

We continue to develop our links with the wider Bow and South Camden communities. Volunteers have this year helped to run Christmas parties for teenage parents and elderly people at the Bromley by Bow Centre and Toynbee Hall, carried out a range of environmental improvements at Stepney City Farm, and cleaned Camden's Pirate Castle Youth Club in preparation for a special fundraising event. In August we ran our first ever volunteering day for our global graduate recruits, and plan to make this an annual event.

Rothschild and the Environment

We recognise that Rothschild's day to day operations have an impact on the environment and we are fully committed to doing what we can to reducing that impact, to promoting environmental awareness amongst our people, and to achieving continuous improvement in our environmental performance. We are members of Business in the Community's MayDay Network, and are proud to be represented on the Prince of Wales' MayDay Leadership Team.

Our greatest priority is to reduce year on year our carbon emissions relating to energy use. In 2009/10 we reduced UK emissions by 3 per cent compared with the previous year, and aim to reduce them by a further 2 per cent in the year ahead. We promote a policy of reducing waste, reusing what we or others can, and recycling what remains. We have recently swapped disposable coffee cups for reusable mugs, switched printer settings to duplex where possible, and introduced recycled paper as standard. We have achieved Gold in the Clean City Awards for three years running.

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.

Report of the Directors

Supplier Payment Policy

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The Group does not currently follow any code or standard on payment practice. It is the Group's policy to settle the terms of payment with those 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 2010, represented 31 days purchases outstanding.

Directors

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

The following Directors have been appointed since the last Annual General Meeting: Richard Martin (19 November 2009).

The following Directors have all resigned since the last Annual General Meeting: Paul Barry, Anthony Chapman, Christopher Coleman, Lord Guthrie, Richard Martin, Andrew Tovell, Philip Yeates (all 26 May 2010), Timothy Hancock (21 June 2010), Sir Graham Hearne (10 June 2010) and Sir Clive Whitmore (4 June 2010).

Financial Risk Management

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

Auditors

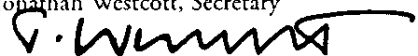
KPMG Audit Plc have indicated their willingness to continue in office and a resolution to re-appoint them and to authorise the directors to determine their remuneration will be proposed at the forthcoming Annual General Meeting, in accordance with Section 485 of the Companies Act 2006.

Audit Information

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

By Order of the Board

Jonathan Westcott, Secretary



New Court, St. Swithin's Lane, London EC4P 4DU
27 July 2010

Committees

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

Group Management Committee

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

Membership David de Rothschild (Chairman), Eric de Rothschild, Anthony Alt, Paul Barry, Andrew Didham, François Henrot, Nigel Higgins, Marc-Olivier Laurent, Robert Leitão, Veit de Maddalena, Richard Martin, Olivier Pécoux, Jonathan Westcott, Nicholas Wrigley

Group Assets and Liabilities Committee

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

Membership Anthony Alt (Chairman), Christopher Coleman, Paul Copsey, Andrew Didham, Adam Greenbury, Timothy Hancock, Richard Martin, Matthias Montani, Andrew Tovell, Jonathan Westcott, Philip Yeates

Credit Committee

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

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

Committees

New Client Acceptance Committee

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This committee approves, from a reputational, money laundering and due diligence perspective, all new clients to be accepted by the Investment Banking business

Membership Crispin Wright (Chairman), Timothy Hancock, Dominic Hollamby, Richard Murley, Axel Stafflage, Albrecht Stewen, Maurice Topiol, Stuart Vincent, William Wells, Jonathan Westcott, Adam Young

Group Audit Committee

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

Membership Peter Smith (Chairman), Sylvain Hefes, Bernard Myers, Sir Clive Whitmore

Group Remuneration and Nominations Committee

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

Membership Sir Clive Whitmore (Chairman), David de Rothschild, Eric de Rothschild, Mark Evans, Sylvain Hefes

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

36

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.

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

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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 2010 set out on pages 41 to 112. The financial reporting framework that has been applied in their preparation is applicable law and International Financial Reporting Standards (IFRSs) as adopted by the EU and, as regards the Parent Company financial statements, as applied in accordance with 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 auditors' report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Company and the Company's members, as a body, for our audit work, for this report, or for the opinions we have formed.

Respective Responsibilities of Directors and Auditors

As explained more fully in the Statement of Directors' Responsibilities on page 36, 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 the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's (APB's) Ethical Standards for Auditors.

Scope of the Audit of the Financial Statements

A description of the scope of an audit of financial statements is provided on the APB's web-site at www.frc.org.uk/apb/scope/UKNP.

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 2010 and of the Group's profit for the year then ended,
- the Group financial statements have been properly prepared in accordance with IFRSs as adopted by the EU,
- the Parent Company financial statements have been properly prepared in accordance with IFRSs 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.

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

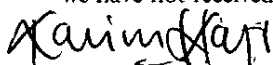
38 Opinion on Other Matters Prescribed by the Companies Act 2006

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

Matters on Which we are Required to Report by Exception

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

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



Karim K Haji (Senior Statutory Auditor)

For and on behalf of KPMG Audit Plc, Statutory Auditor

Chartered Accountants
15 Canada Square
Canary Wharf
London
E14 5GL

27 July 2010

Consolidated Income Statement

For the year ended 31 March 2010

	Note	2010 £'000	2009 £'000
Interest and similar income	4	92,735	243,842
Interest expense and similar charges	4	(66,456)	(195,046)
Net interest income		26,279	48,796
Fee and commission income	5	381,673	362,306
Fee and commission expense	5	(29,558)	(21,902)
Dividend income	6	1,827	1,697
Net trading income	7	(705)	8,032
Fair value movements	8	–	6,746
Gains less losses from available-for-sale financial assets		1,916	(4,537)
Gain on extinguishment of financial liabilities	24	133,748	–
Other operating income	31	10,671	44,913
Total operating income		525,851	446,051
Impairment losses on financial assets	13, 14	(57,570)	(83,225)
Net operating income		468,281	362,826
Operating expenses	9, 10	(326,221)	(305,292)
Depreciation and amortisation	20, 21	(6,706)	(7,361)
Share of post-tax profit of associated undertakings	18	2,564	369
Profit before income tax		137,918	50,542
Income tax expense	11	(1,768)	(9,017)
Profit for the financial year *		136,150	41,525

* of the £136,150,000 (2009 £41,525,000) profit for the financial year, £111,603,000 (2009 £30,985,000) is attributable to ordinary shareholders of the parent company and £24,547,000 (2009 £10,540,000) is attributable to non-controlling interests

The notes on pages 48 to 112 form an integral part of these financial statements

Consolidated Statement of Comprehensive Income

For the year ended 31 March 2010

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	Note	2010 £'000	2009 £'000
Profit for the financial year		136,150	41,525
Other comprehensive income			
Available-for-sale investments			
Change in fair value of assets classified as available-for-sale		72,988	(123,970)
Net change in fair value of available-for-sale financial assets transferred to income statement		2,169	35,721
Amortisation of fair value of reclassified assets	13	10,675	9,806
Cash flow hedges			
Effective portion of changes in fair value of cash flow hedges		1,631	(2,724)
Other items recognised directly in equity			
Actuarial losses on defined benefit pension funds	26	(73,795)	(51,850)
Exchange differences on translation of foreign operations		2,391	13,358
Income tax on other comprehensive income	11	(3,659)	37,877
Other comprehensive income for the financial year, net of income tax		12,400	(81,782)
Total comprehensive income for the financial year		148,550	(40,257)
Attributable to			
– Ordinary shareholders of the parent		124,656	(56,927)
– Non-controlling interests		23,894	16,670
		148,550	(40,257)

The notes on pages 48 to 112 form an integral part of these financial statements

Consolidated Balance Sheet

At 31 March 2010

	Note	2010 £'000	2009 £'000
Assets			
Cash and balances at central banks		810,857	571,985
Loans and receivables to banks - included in cash and cash equivalents	13	171,613	493,816
Loans and receivables to banks - other	13	11,762	2,977
Loans and receivables to customers	13	1,087,835	1,468,947
Available-for-sale financial assets	14	760,813	1,046,715
Derivative financial instruments	15	17,147	9,797
Other assets	16	143,015	149,427
Non-current assets held for sale	17	38,033	30,536
Current tax assets		5,905	15,299
Investments in associated undertakings	18	37,763	37,281
Intangible assets	20	14,703	14,859
Property, plant and equipment	21	19,954	17,946
Deferred tax assets	25	111,773	101,455
Total assets		3,231,173	3,961,040
Liabilities			
Deposits by banks		279,505	449,974
Due to customers		1,236,490	663,157
Repurchase agreements		208,378	832,808
Derivative financial instruments	15	20,741	38,211
Debt securities in issue	22	465,909	985,139
Liabilities related to non-current assets held for sale	17	35,592	28,653
Other liabilities	23	131,231	72,285
Current tax liabilities		13,221	9,152
Accruals and deferred income		303,449	293,995
Subordinated liabilities	24	—	271,014
Total liabilities		2,694,516	3,644,388
Equity			
Share capital	33	57,655	57,655
Share premium account		97,936	97,936
Retained earnings		278,804	252,290
Other reserves		(50,427)	(116,579)
Total shareholders' equity attributable to ordinary shareholders		383,968	291,302
Non-controlling interests	32	152,689	25,350
Total equity		536,657	316,652
Total equity and liabilities		3,231,173	3,961,040

The accounts on pages 41 to 112 were approved by the Board of Directors and were signed on its behalf by


Andrew Didham, Group Finance Director

27 July 2010

The notes on pages 48 to 112 form an integral part of these financial statements

Consolidated Statement of Changes in Equity

For the year ended 31 March 2010

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	Share Capital £'000	Share premium £'000	Retained Earnings £'000	Translation reserve £'000	Available- for-sale reserve £'000	Hedging reserve £'000	Non- controlling interests £'000	Total Equity £'000
At 1 April 2009	57,655	97,936	252,290	11,603	(125,651)	(2,531)	25,350	316,652
Total comprehensive income for the period	—	—	58,504	3,044	61,934	1,174	23,894	148,550
Reclassification of perpetual instruments	—	—	—	—	—	—	124,335	124,335
Purchase of non-controlling interest	—	—	(1,990)	—	—	—	(1,024)	(3,014)
Dividends	—	—	(30,000)	—	—	—	(10,184)	(40,184)
Interest on perpetual instruments	—	—	—	—	—	—	(13,447)	(13,447)
– Tax thereon	—	—	—	—	—	—	3,765	3,765
At 31 March 2010	57,655	97,936	278,804	14,647	(63,717)	(1,357)	152,689	536,657
At 1 April 2008	55,155	97,936	258,639	4,375	(69,806)	(570)	1,797	347,526
Total comprehensive income for the period	—	—	(6,349)	7,228	(55,845)	(1,961)	16,670	(40,257)
Ordinary share capital issued	2,500	—	—	—	—	—	—	2,500
Reclassification from associated undertaking	—	—	—	—	—	—	25,941	25,941
Purchase of non-controlling interest	—	—	—	—	—	—	(712)	(712)
Dividends	—	—	—	—	—	—	(18,346)	(18,346)
At 31 March 2009	57,655	97,936	252,290	11,603	(125,651)	(2,531)	25,350	316,652

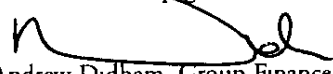
The notes on pages 48 to 112 form an integral part of these financial statements

Company Balance Sheet

At 31 March 2010

	Note	2010 £'000	2009 £'000
Assets			
Cash and balances at central banks		810,847	570,913
Loans and receivables to banks - included in cash and cash equivalents	13	97,714	396,473
Loans and receivables to customers	13	1,103,382	1,515,102
Available-for-sale financial assets	14	758,951	1,045,915
Derivative financial instruments	15	17,147	9,797
Other assets	16	78,915	90,938
Current tax assets		-	11,561
Shares in subsidiary undertakings	35	43,807	40,794
Investments in associated undertakings	18	37,692	37,692
Investments in joint ventures	19	5,375	5,375
Property plant and equipment	21	7,787	7,028
Deferred tax assets	25	99,191	89,695
Total assets		3,060,808	3,821,283
Liabilities			
Deposits by banks		277,977	447,934
Due to customers		1,678,608	1,474,495
Repurchase agreements		208,378	832,808
Derivative financial instruments	15	20,645	37,708
Debt securities in issue	22	89,091	271,365
Other liabilities	23	109,059	32,301
Current tax liabilities		224	-
Accruals and deferred income		224,308	212,099
Subordinated liabilities	24	-	271,014
Total liabilities		2,608,290	3,579,724
Equity			
Share capital	33	57,655	57,655
Share premium account		97,936	97,936
Perpetual instruments	24, 34	124,335	-
Retained earnings		238,690	214,548
Other reserves		(66,098)	(128,580)
Total equity		452,518	241,559
Total equity and liabilities		3,060,808	3,821,283

The accounts on pages 41 to 112 were approved by the Board of Directors and were signed on its behalf by


Andrew Didham, Group Finance Director

27 July 2010

The notes on pages 48 to 112 form an integral part of these financial statements

Company Statement of Changes in Equity

For the year ended 31 March 2010

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	Share capital £'000	Share premium £'000	Perpetual instruments £'000	Retained earnings £'000	Available- for-sale reserve £'000	Hedging reserve £'000	Total equity £'000
At 1 April 2009	57,655	97,936	–	214,548	(126,049)	(2,531)	241,559
Profit for the financial year	–	–	–	117,036	–	–	117,036
Other comprehensive income							
Available-for-sale investments							
Change in fair value of assets classified as available-for-sale	–	–	–	–	72,119	–	72,119
Net change in fair value of available-for-sale financial assets transferred to income statement	–	–	–	–	2,169	–	2,169
Amortisation of fair value of reclassified financial assets	–	–	–	–	10,675	–	10,675
Cash flow hedges							
Effective portion of changes in fair value of cash flow hedges	–	–	–	–	–	1,631	1,631
Other items							
Actuarial losses on defined benefit pension funds	–	–	–	(73,908)	–	–	(73,908)
Income tax on other comprehensive income	–	–	–	20,696	(23,655)	(457)	(3,416)
Reclassification of perpetual instruments	–	–	124,335	–	–	–	124,335
Dividends paid	–	–	–	(30,000)	–	–	(30,000)
Interest on perpetual instruments	–	–	–	(13,447)	–	–	(13,447)
– Tax thereon	–	–	–	3,765	–	–	3,765
At 31 March 2010	57,655	97,936	124,335	238,690	(64,741)	(1,357)	452,518
At 1 April 2008	55,155	97,936	–	225,982	(71,233)	(570)	307,270
Profit for the financial year	–	–	–	25,900	–	–	25,900
Other comprehensive income							
Available-for-sale investments							
Change in fair value of assets classified as available-for-sale	–	–	–	–	(112,655)	–	(112,655)
Net change in fair value of available-for-sale financial assets transferred to income statement	–	–	–	–	25,915	–	25,915
Amortisation of fair value of reclassified financial assets	–	–	–	–	9,806	–	9,806
Cash flow hedges							
Effective portion of changes in fair value of cash flow hedges	–	–	–	–	–	(2,724)	(2,724)
Other items							
Actuarial losses on defined benefit pension funds	–	–	–	(51,850)	–	–	(51,850)
Income tax on other comprehensive income	–	–	–	14,516	22,118	763	37,397
Ordinary share capital issued	2,500	–	–	–	–	–	2,500
At 31 March 2009	57,655	97,936	–	214,548	(126,049)	(2,531)	241,559

The notes on pages 48 to 112 form an integral part of these financial statements

Cash Flow Statements

For the year ended 31 March 2010

	Note	2010 Group £'000	2010 Company £'000	2009 Group £'000	2009 Company £'000
Cash flow from operating activities					
Profit before income tax for the financial year		137,918	106,435	50,542	20,807
Adjustments to reconcile net profit to cash flow from operating activities					
Non-cash items included in net profit and other adjustments					
Depreciation and amortisation		6,706	3,252	7,361	3,486
Share of operating profit of associates		(2,564)	–	(369)	–
Fair value movements	8	–	–	(6,746)	(6,746)
Impairment of financial and other assets (net of recovery)		57,570	58,029	83,225	82,585
Loss on disposal of subsidiaries		–	–	797	–
Unrealised exchange (gains)/losses – non-operating assets		(11,611)	(12,931)	43,495	31,542
Gain on extinguishment of financial liabilities		(133,748)	(133,748)	–	–
Profit on disposal of investment securities		(1,916)	(1,916)	–	–
Profit on disposal of fixed assets		(28)	(48)	(33,732)	(10)
		(85,591)	(87,362)	94,031	110,857
Net decrease/(increase) in operating assets					
Net due to/from banks (excluding cash equivalents)		(178,887)	(169,590)	(202,442)	(204,452)
Derivative financial instruments		(7,350)	(7,350)	1,415	1,400
Available-for-sale financial assets		368,109	368,302	862,271	862,462
Loans and receivables to customers		329,084	359,233	(55,572)	(123,433)
Accrued income, prepaid expenses and other assets		6,385	12,023	92,101	59,422
		517,341	562,618	697,773	595,399
Net (decrease)/increase in operating liabilities					
Customer deposits		573,333	204,113	(158,607)	(74,395)
Repurchase agreements		(624,430)	(624,430)	(280,691)	(280,691)
Derivative financial instruments		(15,839)	(15,432)	(5,518)	(5,694)
Debt securities in issue		(519,230)	(182,274)	(254,294)	(252,244)
Accrued expenses and other liabilities		(5,517)	15,059	(129,238)	(122,934)
Income taxes received/(paid)		2,485	13,239	(10,364)	6,606
		(589,198)	(589,725)	(838,712)	(729,352)
Net cash flow from operating activities*		(19,530)	(8,034)	3,634	(2,289)
Cash flow from/(used in) investing activities					
Acquisition/increase in stake of subsidiaries, associates' and joint ventures		(2,991)	(3,015)	(8,127)	(10,885)
Cash recognised on reclassification of associate to subsidiary		–	–	62,421	–
Dividends received from associates		1,511	–	1,814	–
Proceeds from disposal of subsidiaries		–	–	36,820	64
Purchase of fixed assets		(8,696)	(4,023)	(4,417)	(1,590)
Disposal of fixed assets		373	61	886	32
Net cash flow (used in)/from investing activities		(9,803)	(6,977)	89,397	(12,379)
Cash flow (used in)/from financing activities					
Cash from issuance of ordinary shares		–	–	2,500	2,500
Dividends and interest on perpetual debt		(43,447)	(43,447)	–	–
Distributions to non-controlling interests		(10,184)	–	(18,346)	–
Net cash flow (used in)/from financing activities		(53,631)	(43,447)	(15,846)	2,500
Net (decrease)/increase in cash and cash equivalents		(82,964)	(58,458)	77,185	(12,168)
Cash and cash equivalents at 1 April		1,065,413	966,998	988,228	979,166
Cash and cash equivalents at 31 March	30	982,449	908,540	1,065,413	966,998

* Group cash paid and received for interest during 2010 was £58,136,000 (2009 £209,146,000) and £95,832,000 (2009 £254,996,000) respectively. Company cash paid and received for interest during 2010 was £55,201,000 (2009 £208,733,000) and £82,919,000 (2009 £241,631,000) respectively.

The notes on pages 48 to 112 form an integral part of these financial statements.

Notes to the Financial Statements

(forming part of the Financial Statements)

For the year ended 31 March 2010

1. Summary of Significant Accounting Policies

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

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

The Group applies revised IAS 1 Presentation of Financial Statements (2007). As a result, the primary statements include a Consolidated Statement of Comprehensive Income and Statements of Changes in Equity.

Comparative information has been re-presented so that it also is in conformity with the revised standard. Since the change in accounting policy only impacts presentation aspects, there is no impact on earnings.

The Group has applied Improving Disclosures about Financial Instruments (Amendments to IFRS 7), issued in March 2009, that require enhanced disclosures about fair value measurements and liquidity risk in respect of financial instruments.

The amendments require that fair value measurement disclosures use a three-level fair value hierarchy that reflects the significance of the inputs used in measuring fair values of financial instruments. Specific disclosures are required when fair value measurements are categorised as Level 3 (significant unobservable inputs) in the fair value hierarchy. The amendments require that any significant transfers between Level 1 and Level 2 of the fair value hierarchy be disclosed separately, distinguishing between transfers into and out of each level. Furthermore, changes in valuation techniques from one period to another, including the reasons therefore, are required to be disclosed for each class of financial instruments.

Further, the definition of liquidity risk has been amended and it is now defined as the risk that an entity will encounter difficulty in meeting obligations associated with financial liabilities that are settled by delivering cash or another financial asset.

The amendments require disclosure of a maturity analysis for non-derivative and derivative financial liabilities, but contractual maturities are required to be disclosed for derivative financial liabilities only when contractual maturities are essential for an understanding of the timing of cash flows. For issued financial guarantee contracts, the amendments require the maximum amount of the guarantee to be disclosed in the earliest period in which the guarantee could be called.

A number of new standards, amendments to standards and interpretations are not effective for the year ended 31 March 2010, and have not been applied in preparing these consolidated financial statements.

Standards, amendments and interpretations endorsed by the EU

Revised IFRS 3 Business Combinations (revised 2008) incorporates the following changes that are likely to be relevant to the Group's operations:

- The definition of a business has been amended to clarify that it can include a set of activities and assets that are not being operated as a business, as long as an acquirer is capable of operating the set as a business,

Notes to the Financial Statements

(forming part of the Financial Statements)

1. Summary of Significant Accounting Policies (continued)

- All business combinations are accounted for by applying the acquisition method (previously the purchase method),
- Subsequent recognition of deferred tax assets acquired in a business combination that did not satisfy the criteria for recognition at the acquisition date would be recognised in profit or loss,
- Any non-controlling interests will be measured at either fair value, or at its proportionate interest in the identifiable assets and liabilities of an acquiree, on a transaction-by-transaction basis,

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Revised IFRS 3, which becomes mandatory for the Group's 2011 consolidated financial statements, will be applied prospectively and therefore there will be no impact on prior periods in the Group's 2011 consolidated financial statements

Revised IAS 27 Consolidated and Separate Financial Statements (amended 2008) requires accounting for changes in ownership interests in a subsidiary that occur without loss of control, to be recognised as an equity transaction. When the Group loses control of a subsidiary, any interest retained in the former subsidiary will be measured at fair value with the gain or loss recognised in profit or loss. The amendments to IAS 27, which becomes mandatory for the Group's 2011 consolidated financial statements, are not expected to have a significant impact on the consolidated financial statements.

Amendments to IAS 39, Financial Instruments: Recognition and Measurement – Eligible Hedged Items clarifies the application of existing principles that determine whether specific risks or portions of cash flows are eligible for designation in a hedging relationship. The amendments will become mandatory for the Group's 2011 consolidated financial statements, with retrospective application required. The Group is currently in the process of evaluating the potential effect of this amendment.

Standards, amendments and interpretations issued by the IASB but not endorsed by the EU

IFRS 9 Financial instruments, published on 12 November 2009 as part of phase 1 of the IASB's comprehensive project to replace IAS 39, deals with classification and measurement of financial assets. The requirements of this standard represent a significant change from the existing requirements in IAS 39 in respect of financial assets. The standard contains two primary measurement categories for financial assets: amortised cost and fair value. A financial asset would be measured at amortised cost if it is held within a business model whose objective is to hold assets in order to collect contractual cash flows, and the asset's contractual terms give rise on specified dates to cash flows that are solely payments of principal and interest on the principal outstanding. All other financial assets would be measured at fair value. The standard eliminates the existing IAS 39 categories of held to maturity, available for sale and loans and receivables. For an investment in an equity instrument which is not held for trading, the standard permits an irrevocable election, on initial recognition, on an individual share-by-share basis, to present all fair value changes from the investment in other comprehensive income. No amount recognised in other comprehensive income would ever be reclassified to profit or loss at a later date. However, dividends on such investments are recognised in profit or loss, rather than other comprehensive income, as they clearly represent a partial recovery of the cost of the investment. Investments in equity instruments in respect of which an entity does not elect to present fair value changes in other comprehensive income would be measured at fair value with changes in fair value recognised in profit or loss.

The standard requires that derivatives embedded in contracts with a host that is a financial asset within the scope of the standard are not separated, instead the hybrid financial instrument is assessed in its entirety as to whether it should be measured at amortised cost or fair value.

Notes to the Financial Statements

(forming part of the Financial Statements)

I. Summary of Significant Accounting Policies (continued)

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The standard is effective for annual periods beginning on or after 1 January 2013. Earlier application is permitted.

The Group is currently in the process of evaluating the potential effect of this standard. Given the nature of the Group's operations, this standard is expected to have a significant impact on the Group's financial statements.

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 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. Areas where management judgement is particularly significant include the valuation of financial assets and liabilities, impairment of financial assets, pension obligations and the recoverability of deferred tax assets.

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 2010 and consolidate the audited financial statements of the Company and its subsidiary undertakings. In order to avoid undue delay in the preparation of the consolidated financial statements, the financial statements of certain subsidiary undertakings are made up to 31 December each year.

Subsidiary undertakings

Subsidiary undertakings are all entities (including special purpose entities "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 any costs directly attributable to the acquisition. The excess of the cost of acquisition over the fair value of the net identifiable assets and fair value of contingent liabilities of the subsidiary undertaking acquired is recorded as goodwill. All inter-company transactions, balances and unrealised surpluses and deficits on transactions between group companies are eliminated on consolidation. The accounting policies used by subsidiary undertakings are consistent with the policies adopted by the Group.

Notes to the Financial Statements

(forming part of the Financial Statements)

I. Summary of Significant Accounting Policies (continued)

Basis of consolidation (continued)

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

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

Associated undertakings

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

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

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

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

Joint ventures

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

Going concern

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

Non-current assets held for sale and related liabilities

Non-current assets are classified as held for sale if their carrying amount will be recovered through a sale transaction rather than through continuing use. This condition is regarded as met only when the sale is highly probable and expected to be completed within one year from classification. Non-current assets held for sale are measured at the lower of carrying value and fair value less costs to sell

Notes to the Financial Statements

(forming part of the Financial Statements)

1. Summary of Significant Accounting Policies (continued)

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Foreign exchange

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

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

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

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

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

Derivative financial instruments and hedge accounting

Derivatives

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

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

Hedge accounting

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

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

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)

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Fair value hedge accounting

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

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

Cash flow hedge accounting

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

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

Embedded derivatives

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

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

Interest income and expense

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

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

Notes to the Financial Statements

(forming part of the Financial Statements)

1. Summary of Significant Accounting Policies (continued)

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Fee and commission income

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

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

Trading income

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

Financial assets and liabilities

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

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

Financial assets at fair value through profit or loss

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

Loans and receivables

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

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

Financial assets that have been reclassified as loans and receivables 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.

Notes to the Financial Statements

(forming part of the Financial Statements)

1. Summary of Significant Accounting Policies (continued)

Financial assets and liabilities (continued)

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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.

A financial asset classified as available for sale that would have met the definition of loans and receivables may be reclassified out of the available-for-sale category to the loans and receivables category where the Group has the intention and the ability to hold the asset for the foreseeable future or until maturity.

Financial liabilities

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

Financial guarantee contracts

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

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

Derecognition

The Group derecognises a financial asset when

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

Notes to the Financial Statements

(forming part of the Financial Statements)

I. Summary of Significant Accounting Policies (continued)

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Financial assets and liabilities (continued)

Determination of fair value

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

Securitisation transactions

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

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

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

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 cash flows of the financial asset or group of financial assets that can be reliably estimated. Objective evidence that a financial asset or group of assets is impaired includes observable data about the following loss events:

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

Impairment of loans and receivables

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

Notes to the Financial Statements

(forming part of the Financial Statements)

I. Summary of Significant Accounting Policies (continued)

Impairment of financial assets (continued)

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

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

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

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

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

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

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

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

Impairment of available-for-sale assets

Available-for-sale assets are assessed at each balance sheet date to determine whether there is objective evidence that a financial asset or group of financial assets is impaired, which requires judgement by management.

Notes to the Financial Statements

(forming part of the Financial Statements)

I. Summary of Significant Accounting Policies (continued)

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Impairment of financial assets (continued)

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

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

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

Debt/equity classification

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

Goodwill and intangible assets

1. 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 cash flows are insufficient to support their carrying value, then the goodwill is impaired. Impairment losses on goodwill are recognised in the income statement and are not reversed.

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

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

Notes to the Financial Statements

(forming part of the Financial Statements)

I. Summary of Significant Accounting Policies (continued)

Goodwill and intangible assets (continued)

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

Property, plant and equipment

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

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

Computer equipment	2-5 years
Cars	3-5 years
Fixtures and fittings	3-10 years
Leasehold improvements	4-15 years

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

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

Impairment of property, plant and equipment

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

Notes to the Financial Statements

(forming part of the Financial Statements)

I. Summary of Significant Accounting Policies (continued)

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

The defined benefit schemes are accounted for using the option permitted by the amendment made to IAS 19 Employee Benefits whereby actuarial gains and losses are recognised outside the income statement and presented in the statement of comprehensive income. The amount recognised in the balance sheet in respect of defined benefit schemes is the difference between the present value of the defined benefit obligation at the balance sheet date and the fair value of the plan's assets, if any. The defined benefit obligation is calculated annually by independent actuaries using the projected unit credit method. The principal assumptions are set out in note 26. The present value of the obligation is determined by discounting the estimated future cash outflows using interest rates of high-quality corporate bonds that are denominated in the currency in which the benefits will be paid and that have terms to maturity approximating to the terms of the related pension liability.

Notes to the Financial Statements

(forming part of the Financial Statements)

I Summary of Significant Accounting Policies (continued)

Long term employee benefits

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

Taxation

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

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

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.

Notes to the Financial Statements

(forming part of the Financial Statements)

2. Financial Risk Management

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2.1 Strategy in using financial instruments

The use of financial instruments is fundamental to the Group's banking and treasury activities. The Group provides a range of lending products to its clients and funds these activities by means of deposit-taking, medium term note issuance and other borrowings. The Group invests in debt securities in order to profit from the interest margin over its cost of funds and to provide a portfolio of liquid assets to assist in the management of liquidity risk and to hedge forecast cashflows. The Group uses derivative financial instruments, 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 15. 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.

Notes to the Financial Statements

(forming part of the Financial Statements)

2. Financial Risk Management (continued)

2.2 Credit risk (continued)

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Category 3

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

Category 4

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

Category 5

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

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 2010							
Cash and balances at central banks	810,857	–	–	–	–	–	810,857
Derivative financial instruments	17,032	–	115	–	–	–	17,147
Loans and receivables to banks	183,375	–	–	–	–	–	183,375
Loans and receivables to customers	733,105	133,632	143,636	49,863	117,754	(90,155)	1,087,835
Available-for-sale financial assets							
– debt securities	627,031	12,571	1,573	–	35,472	(26,433)	650,214
Commitments and guarantees	36,579	3,859	10,408	–	1,497	–	52,343
Accounts receivable	96,033	3,309	1,226	10,258	5,861	(5,411)	111,276
Total	2,504,012	153,371	156,958	60,121	160,584	(121,999)	2,913,047
At 31 March 2009							
Cash and balances at central banks	571,985	–	–	–	–	–	571,985
Derivative financial instruments	9,797	–	–	–	–	–	9,797
Loans and receivables to banks	496,793	–	–	–	–	–	496,793
Loans and receivables to customers	1,152,643	168,492	110,807	13,272	94,451	(70,718)	1,468,947
Available-for-sale financial assets							
– debt securities	897,308	31,190	–	–	33,156	(24,498)	937,156
Commitments and guarantees	202,612	13,390	17,710	–	2,233	–	235,945
Accounts receivable	87,235	3,735	9	2,529	7,483	(7,346)	93,645
Total	3,418,373	216,807	128,526	15,801	137,323	(102,562)	3,814,268

Notes to the Financial Statements

(forming part of the Financial Statements)

2. Financial Risk Management (continued)

2.2 Credit risk (continued)

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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 2010							
Cash and balances at central banks	810,847	–	–	–	–	–	810,847
Derivative financial instruments	17,032	–	115	–	–	–	17,147
Loans and receivables to banks	97,714	–	–	–	–	–	97,714
Loans and receivables to customers	776,181	133,632	143,636	38,836	97,107	(86,010)	1,103,382
Available-for-sale financial assets							
– debt securities	627,031	12,571	1,573	–	35,472	(26,433)	650,214
Commitments and guarantees	584,286	3,859	10,408	–	1,497	–	600,050
Accounts receivable	53,415	–	–	4,418	4,220	(3,703)	58,350
Total	2,966,506	150,062	155,732	43,254	138,296	(116,146)	3,337,704
At 31 March 2009							
Cash and balances at central banks	570,913	–	–	–	–	–	570,913
Derivative financial instruments	9,797	–	–	–	–	–	9,797
Loans and receivables to banks	396,473	–	–	–	–	–	396,473
Loans and receivables to customers	1,220,065	168,942	110,807	2,380	79,104	(66,196)	1,515,102
Available-for-sale financial assets							
– debt securities	897,308	31,190	–	–	33,156	(24,498)	937,156
Commitments and guarantees	1,070,001	13,390	17,710	–	2,233	–	1,103,334
Accounts receivable	57,083	–	–	2,320	7,397	(5,541)	61,259
Total	4,221,640	213,522	128,517	4,700	121,890	(96,235)	4,594,034

The tables below analyse amounts past due but not impaired

	Past due by < 6 months £'000	Past due by > 6 months £'000	Total £'000
Group			
At 31 March 2010			
Loans and receivables to customers	15,533	34,330	49,863
Accounts receivable	5,131	5,127	10,258
Total	20,664	39,457	60,121
At 31 March 2009			
Loans and receivables to customers	10,136	3,136	13,272
Accounts receivable	2,106	423	2,529
Total	12,242	3,559	15,801

Notes to the Financial Statements

(forming part of the Financial Statements)

2. Financial Risk Management (continued)

2.2 Credit risk (continued)

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	Past due by < 6 months £'000	Past due by > 6 months £'000	Total £'000
Company			
At 31 March 2010			
Loans and receivables to customers	7,275	31,561	38,836
Accounts receivable	4,112	306	4,418
Total	11,387	31,867	43,254
At 31 March 2009			
Loans and receivables to customers	2,380	–	2,380
Accounts receivable	2,106	214	2,320
Total	4,486	214	4,700

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

	2010 £'000	2009 £'000
Group and Company		
Loans and receivables to customers	79,900	27,839

b Collateral

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

Collateral takes various forms. Property loan exposures are typically secured by fixed charges on the underlying property (80 per cent of the committed property loan book benefiting from first ranking charges) and may also be supported by other security or guarantees. All property is subject to a professional valuation at inception and may be revalued periodically through the life of the loan. Leveraged finance exposures are typically secured by fixed and floating charges over material assets of the borrower. The value of this security will vary over time and is dependent on the types of asset secured, the jurisdiction of the borrowers and the ability to dispose of the company as a going concern. Exposures in the natural resources sector are almost all secured. Security may take the form of corporate debentures, fixed charges on assets or charges on the cashflows arising out of commodity finance and export proceeds. Asset finance exposures are secured on assets including invoices, plant and equipment, stock and property. Where the collateral held relates to fixed charges over tangible assets, the fair value is arrived at using the estimated market value of the assets less the costs of disposal. Other collateral, typically in the form of a fixed or floating charge over a wide range of business assets, is valued using modelling techniques to estimate the amount that would be realised if the Group exercised its security.

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

Notes to the Financial Statements

(forming part of the Financial Statements)

2. Financial Risk Management (continued)

2.2 Credit risk (continued)

	Past due but not impaired 2010 £'000	Individually impaired 2010 £'000	Past due but not impaired 2009 £'000	Individually impaired 2009 £'000
Group				
Property	24,080	10,461	4,379	21,040
Debt and equity securities	–	6,633	–	–
Commercial vehicles and other equipment	9,502	18,045	7,616	17,276
Guarantees and fixed or floating charges	17,086	–	–	6,087
Other	–	1,955	–	2,433
Collateral held	50,668	37,094	11,995	46,836
Amount of loans collateralised	49,863	43,795	13,272	50,332
Company				
Property	21,750	2,668	500	15,079
Debt and equity securities	–	6,633	–	–
Commercial vehicles and other equipment	–	8,715	–	8,767
Guarantees and fixed or floating charges	17,086	–	–	6,087
Other	–	1,955	–	2,433
Collateral held	38,836	19,971	500	32,366
Amount of loans collateralised	38,836	23,148	2,380	34,984

c 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 receivables is determined by reference to the location of the borrower, and debt securities are recorded based on the location of the issuer of the security. The sector analysis is based on Global Industry Classification Standards and includes derivative financial instruments, loans and receivables to banks, loans and receivables 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)

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Credit risk by location	UK and Channel Islands £'000	Other Europe £'000	US and Canada £'000	Other £'000	Total £'000
Group					
At 31 March 2010					
Cash and balances at central banks	810,847	10	—	—	810,857
Derivative financial instruments	7,030	10,093	24	—	17,147
Loans and receivables to banks	25,341	129,767	53	28,214	183,375
Loans and receivables to customers	698,973	312,115	59,090	17,657	1,087,835
Available-for-sale financial assets – debt securities	231,508	306,644	105,501	6,561	650,214
Commitments and guarantees	22,936	13,570	10,976	4,861	52,343
Accounts receivable	47,889	52,992	2,301	8,094	111,276
Total	1,844,524	825,191	177,945	65,387	2,913,047
At 31 March 2009					
Cash and balances at central banks	570,913	1,072	—	—	571,985
Derivative financial instruments	7,272	2,455	63	7	9,797
Loans and receivables to banks	392,725	84,833	643	18,592	496,793
Loans and receivables to customers	857,358	491,063	58,624	61,902	1,468,947
Available-for-sale financial assets – debt securities	221,827	564,266	128,249	22,814	937,156
Commitments and guarantees	153,708	29,200	49,031	4,006	235,945
Accounts receivable	30,399	40,700	4,850	17,696	93,645
Total	2,234,202	1,213,589	241,460	125,017	3,814,268
Company					
At 31 March 2010					
Cash and balances at central banks	810,847	—	—	—	810,847
Derivative financial instruments	7,030	10,093	24	—	17,147
Loans and receivables to banks	23,965	73,251	53	445	97,714
Loans and receivables to customers	714,520	312,115	59,090	17,657	1,103,382
Available-for-sale financial assets – debt securities	231,508	306,644	105,501	6,561	650,214
Commitments and guarantees	570,643	13,570	10,976	4,861	600,050
Accounts receivable	35,552	17,998	2,207	2,593	58,350
Total	2,394,065	733,671	177,851	32,117	3,337,704
At 31 March 2009					
Cash and balances at central banks	570,913	—	—	—	570,913
Derivative financial instruments	7,272	2,455	63	7	9,797
Loans and receivables to banks	387,526	7,197	38	1,712	396,473
Loans and receivables to customers	903,513	491,063	58,624	61,902	1,515,102
Available-for-sale financial assets – debt securities	221,827	564,266	128,249	22,814	937,156
Commitments and guarantees	1,021,097	29,200	49,031	4,006	1,103,334
Accounts receivable	29,153	25,071	1,212	5,823	61,259
Total	3,141,301	1,119,252	237,217	96,264	4,594,034

Notes to the Financial Statements

(forming part of the Financial Statements)

2. Financial Risk Management (continued)

2.2 Credit risk (continued)

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Credit risk by industry sector	2010 £'000	2009 £'000
Group		
Energy	41,139	131,403
Materials	152,843	254,293
Industrials	118,924	169,337
Consumer discretionary	155,542	201,590
Consumer staples	69,543	90,198
Health care	16,017	23,734
Financial (see below)	1,468,984	1,934,616
Real estate (see below)	508,673	601,470
IT and telecoms	71,620	86,721
Utilities	12,427	3,582
Governments	122,985	22,670
Private persons	13,757	16,500
Related party loans, commitments and guarantees	49,317	184,509
Total	2,801,771	3,720,623
Company		
Energy	41,139	131,403
Materials	147,613	246,864
Industrials	78,498	114,975
Consumer discretionary	116,942	164,467
Consumer staples	67,466	86,274
Health care	10,367	18,655
Financial (see below)	1,382,361	1,837,986
Real estate (see below)	504,335	595,457
IT and telecoms	71,620	86,721
Utilities	12,427	3,582
Governments	104,685	42
Private persons	13,757	16,500
Related party loans, commitments and guarantees	728,144	1,229,849
Total	3,279,354	4,532,775

Notes to the Financial Statements

(forming part of the Financial Statements)

2. Financial Risk Management (continued)

2.2 Credit risk (continued)

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Financial and real estate sector exposures may be analysed as follows

	Group		Company	
	2010	2009	2010	2009
	£'000	£'000	£'000	£'000
Financial sector				
Short term interbank exposures	992,977	1,016,795	907,423	933,832
Treasury marketable securities				
– Investment grade	403,166	810,306	403,166	810,306
Cash/investment backed lending	19,245	44,706	19,245	31,535
Finance companies	22,817	34,483	22,817	34,483
Insurance	–	–	–	–
Other	30,779	28,326	29,710	27,830
Total	1,468,984	1,934,616	1,382,361	1,837,986

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

	Group		Company	
	2010	2009	2010	2009
	£'000	£'000	£'000	£'000
Real estate sector				
Senior loans	415,617	527,502	411,279	521,489
Subordinated/mezzanine	93,056	73,968	93,056	73,968
Total	508,673	601,470	504,335	595,457

Real estate exposures are supported by income generated by a large number of tenants from a wide variety of industry sectors. Exposures are broadly evenly split between the major property types and are located predominantly within the UK. There is minimal exposure to speculative development, and development facilities are provided in respect of pre-sold or pre-let properties, or with access to additional security and/or guarantees. Exposures with an element of development financing represented 6.4 per cent of senior loans (£26.4 million) as at 31 March 2010. All speculative developments have been completed by 31 March 2010.

2.3 Market risk

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

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.

Notes to the Financial Statements

(forming part of the Financial Statements)

2. Financial Risk Management (continued)

2.3 Market risk (continued)

Market risks associated with treasury and equity positions are described below with a description of risk management and the levels of risk

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

Treasury

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

Company	12 months to 31 March 2010			12 months to 31 March 2009		
	Average £'000	High £'000	Low £'000	Average £'000	High £'000	Low £'000
Interest rate risk	761	1,386	259	1,324	2,304	642
Foreign exchange risk	19	65	2	31	153	3
Total value at risk	780	1,451	261	1,355	2,457	645

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

Equities

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

Equity price risk by location	UK and Channel Islands £'000	Other Europe £'000	US and Canada £'000	Other £'000	Total £'000
Group					
At 31 March 2010					
Equity investments	53,922	55,402	1,275	–	110,599
At 31 March 2009					
Equity investments	52,766	56,793	–	–	109,559
Company					
At 31 March 2010					
Equity investments	52,252	55,210	1,275	–	108,737
At 31 March 2009					
Equity investments	51,966	56,793	–	–	108,759

Notes to the Financial Statements

(forming part of the Financial Statements)

2. Financial Risk Management (continued)

2.3 Market risk (continued)

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If the price of all the equities and of those equities on which derivative instruments are dependent were to fall by 5 per cent, then for the Group there would be a post-tax charge to the income statement of £nil and a charge to equity of £3,982,000 (2009 £nil and £3,944,000 respectively), and for the Company there would be a post-tax charge to the income statement of £nil and a charge to equity of £3,915,000 (2009 £nil and £3,915,000 respectively)

The Group and the Company may have potential exposure to equity investments as a result of the Company's underwriting activities. At the year end the net contractual commitment was £nil (2009 £nil), after taking account of sub-underwriting commitments received.

Currency risk

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

	Group		Company	
	2010	2009	2010	2009
	Long/(short)		Long/(short)	
	£'000	£'000	£'000	£'000
US\$	18 905	6,827	1,500	341
Euro	217	2,305	(527)	(2 660)
Other	5 408	7,964	283	222

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 £883,000 (2009 £615,000) and for the Company there would be a post-tax charge to the income statement of £45,000 (2009 credit of £75,000).

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 or down by 1 per cent. This table includes all interest rate risk, including that within the treasury and banking businesses and also, in 2009, the structural interest rate exposure that arose from the reinvestment of fixed rate subordinated liabilities and shareholders' funds. As at 31 March 2010, the subordinated liabilities had been reclassified as equity and therefore is no longer included in the interest rate exposure.

Notes to the Financial Statements

(forming part of the Financial Statements)

2. Financial Risk Management (continued)

2.3 Market risk (continued)

	£ £'000	Group Euro £'000	US\$ £'000	£ £'000	Company Euro £'000	US\$ £'000
At 31 March 2010						
+1%	(1,156)	(198)	271	(968)	(198)	271
-1%	1,153	210	(275)	965	210	(275)
At 31 March 2009						
+1%	10,463	1,596	411	11,473	1,596	411
-1%	(11,389)	(1,613)	(419)	(12,399)	(1,613)	(419)

2.4 Liquidity risk

Management of liquidity risk is of paramount importance to the Group, to ensure that it can meet its liabilities as they fall due. The Group's strategy for the management of liquidity focuses on the maintenance of a diversified funding base of appropriate duration in relation to the Group's assets.

Liquidity is measured by classifying cash flows into future time bands using a series of prudent assumptions and calculating the resultant gap, either surplus or deficit, in each period. The net liquidity gap represents the difference between cash inflows and outflows arising in a particular time period on the assumption that all liabilities mature on their adjusted maturity dates and are not replaced, and that assets are repaid only at their contractual maturity dates. In practice, liabilities are extended and new liabilities are taken on as part of the Group's day to day funding activities. The Group manages the maturity profile of assets and liabilities in accordance with its liquidity policy and within regulatory and internal limits.

Liquidity is monitored daily independently of the front office Treasury staff responsible for day-to-day liquidity management, and is subject to oversight by the Group's Assets and Liabilities Committee which also sets cashflow mismatch limits for each period.

These mismatch limits are generally calculated using the contractual maturity of financial assets and liabilities except for the following:

- marketable debt securities are included in the demand time band (at an appropriate discount), reflecting the fact that these assets are traded in liquid markets and can readily be converted to cash,
- certain classes of customer deposits are included in a time band longer than their contractual maturity, as historical data for these types of deposit show that the deposits are not typically repaid on their contractual maturity dates. This "behavioural adjustment" has been agreed with the FSA for liquidity monitoring and reporting and is subject to regular review, and
- 15 per cent of undrawn loan commitments are included as a cash outflow in the "demand" time band in accordance with the FSA's mismatch liquidity guidelines.

As at 31 March 2010, the overall one month ratio of cumulative behaviourally adjusted net cashflows over total deposits was 41.54 per cent (2009: 13.97 per cent), well in excess of the FSA limit of -5 per cent.

Notes to the Financial Statements

(forming part of the Financial Statements)

2. Financial Risk Management (continued)

2.4 Liquidity risk (continued)

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

Group	Demand £'000	Demand -3m £'000	3m-1yr £'000	>1yr £'000	No fixed maturity £'000	Total £'000
At 31 March 2010						
Cash and balances at central banks	810,836	-	-	-	21	810,857
Loans and receivables to banks	56,362	118,436	8,526	51	-	183,375
Derivative financial instruments	95	1,666	511	14,875	-	17,147
Loans and receivables to customers	40,064	95,179	96,821	890,189	(34,418)	1,087,835
Available-for-sale financial assets	30,184	40,142	263,496	316,392	110,599	760,813
Other	-	59,808	-	-	-	59,808
Total	937,541	315,231	369,354	1,221,507	76,202	2,919,835
Deposits by banks	100,828	65,835	104,842	8,000	-	279,505
Repurchase agreements	-	115,468	92,910	-	-	208,378
Due to customers	159,505	232,456	34,256	810,273	-	1,236,490
Derivative financial instruments	26	4,374	1,471	14,870	-	20,741
Debt securities in issue	-	65,000	89,091	311,818	-	465,909
Other	-	43,918	5,321	4,523	-	53,762
Total	260,359	527,051	327,891	1,149,484	-	2,264,785

At 31 March 2009

Cash and balances at central banks	571,597	-	-	-	388	571,985
Loans and receivables to banks	425,508	68,325	-	2,960	-	496,793
Derivative financial instruments	805	1,945	1,690	5,357	-	9,797
Loans and receivables to customers	23,609	119,827	189,612	1,158,509	(22,610)	1,468,947
Available-for-sale financial assets	1,390	83,833	379,051	472,882	109,559	1,046,715
Other	-	107,811	3,417	1,668	5,661	118,557
Total	1,022,909	381,741	573,770	1,641,376	92,998	3,712,794
Deposits by banks	162,245	156,198	106,531	25,000	-	449,974
Repurchase agreements	-	685,568	48,240	99,000	-	832,808
Due to customers	145,748	444,933	26,370	46,106	-	663,157
Derivative financial instruments	2,078	3,214	1,478	31,441	-	38,211
Debt securities in issue	-	116,681	479,070	389,388	-	985,139
Subordinated liabilities	-	-	-	-	271,014	271,014
Other	-	10,626	-	-	-	10,626
Total	310,071	1,417,220	661,689	590,935	271,014	3,250,929

Notes to the Financial Statements

(forming part of the Financial Statements)

2. Financial Risk Management (continued)

2.4 Liquidity risk (continued)

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Company	Demand £'000	Demand -3m £'000	3m-1yr £'000	>1yr £'000	No fixed maturity £'000	Total £'000
At 31 March 2010						
Cash and balances at central banks	810,826	–	–	–	21	810,847
Loans and receivables to banks	5,106	92,608	–	–	–	97,714
Derivative financial instruments	95	1,666	511	14,875	–	17,147
Loans and receivables to customers	91,902	160,893	66,804	817,589	(33,806)	1,103,382
Available-for-sale financial assets	30,184	40,142	263,496	316,392	108,737	758,951
Other	–	58,350	–	–	–	58,350
Total	938,113	353,659	330,811	1,148,856	74,952	2,846,391
Deposits by banks	99,300	65,835	104,842	8,000	–	277,977
Repurchase agreements	–	115,468	92,910	–	–	208,378
Due to customers	224,803	297,456	34,256	1,122,093	–	1,678,608
Derivative financial instruments	26	4,344	1,411	14,864	–	20,645
Debt securities in issue	–	–	89,091	–	–	89,091
Other	–	26,881	–	–	–	26,881
Total	324,129	509,984	322,510	1,144,957	–	2,301,580
At 31 March 2009						
Cash and balances at central banks	570,525	–	–	–	388	570,913
Loans and receivables to banks	360,212	36,261	–	–	–	396,473
Derivative financial instruments	805	1,945	1,690	5,357	–	9,797
Loans and receivables to customers	105,832	104,038	250,188	1,077,654	(22,610)	1,515,102
Available-for-sale financial assets	1,390	83,833	379,051	472,882	108,759	1,045,915
Other	–	66,172	–	–	5,661	71,833
Total	1,038,764	292,249	630,929	1,555,893	92,198	3,610,033
Deposits by banks	160,205	156,198	106,531	25,000	–	447,934
Repurchase agreements	–	685,568	48,240	99,000	–	832,808
Due to customers	244,230	444,933	349,838	435,494	–	1,474,495
Derivative financial instruments	2,078	2,936	1,258	31,436	–	37,708
Debt securities in issue	–	116,683	154,682	–	–	271,365
Subordinated liabilities	–	–	–	–	271,014	271,014
Other	–	10,626	–	–	–	10,626
Total	406,513	1,416,944	660,549	590,930	271,014	3,345,950

Notes to the Financial Statements

(forming part of the Financial Statements)

2. Financial Risk Management (continued)

2.5 Maturity of financial liabilities

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The following tables show contractual cash flows payable by the Group and the Company on financial liabilities, analysed by remaining contractual maturity at the balance sheet date. 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. Interest cashflows on undated subordinated debt and the related derivative cashflow hedges are shown up to five years only, with the principal balance shown in the perpetual column.

Group	Demand £'000	Demand -3m £'000	3m-1yr £'000	1yr-5yr £'000	>5yr £'000	Perpetual £'000	Total £'000
At 31 March 2010							
Deposits by banks	100,829	66,243	105,569	8,013	–	–	280,654
Repurchase agreements	–	119,359	93,406	–	–	–	212,765
Due to customers	159,625	234,955	56,365	824,481	32,139	–	1,307,565
Debt securities in issue	–	65,818	92,373	313,814	–	–	472,005
Other liabilities	–	43,918	5,321	4,523	–	–	53,762
Total	260,454	530,293	353,034	1,150,831	32,139	–	2,326,751
Loan commitments and guarantees	–	52,343	–	–	–	–	52,343
At 31 March 2009							
Deposits by banks	162,245	157,124	107,905	26,001	–	–	453,275
Repurchase agreements	–	687,843	48,807	102,836	–	–	839,486
Due to customers	145,934	447,724	27,713	46,106	–	–	667,477
Debt securities in issue	–	120,704	496,974	398,481	–	–	1,016,159
Subordinated liabilities	–	1,433	12,772	56,783	–	283,882	354,870
Other liabilities	–	10,626	–	–	–	–	10,626
Total	308,179	1,425,454	694,171	630,207	–	283,882	3,341,893
Loan commitments and guarantees	–	235,945	–	–	–	–	235,945

Notes to the Financial Statements

(forming part of the Financial Statements)

2. Financial Risk Management (continued)

2.5 Maturity of financial liabilities (continued)

Company	Demand £'000	Demand -3m £'000	3m-1yr £'000	1yr-5yr £'000	>5yr £'000	Perpetual £'000	Total £'000
At 31 March 2010							
Deposits by banks	99,301	66,243	105,569	8,013	–	–	279,126
Repurchase agreements	–	119,359	93,406	–	–	–	212,765
Due to customers	224,923	300,773	57,696	1,138,297	32,139	–	1,753,828
Debt securities in issue	–	–	91,042	–	–	–	91,042
Other liabilities	–	26,881	–	–	–	–	26,881
Total	324,224	513,256	347,713	1,146,310	32,139	–	2,363,642
Loan commitments and guarantees	–	600,050	–	–	–	–	600,050
At 31 March 2009							
Deposits by banks	160,205	157,121	107,905	26,031	–	–	451,262
Repurchase agreements	–	687,843	48,807	102,836	–	–	839,486
Due to customers	244,464	451,089	361,139	448,374	–	–	1,505,066
Debt securities in issue	–	117,339	162,628	–	–	–	279,967
Subordinated liabilities	–	1,433	12,772	56,783	–	283,882	354,870
Other liabilities	–	10,626	–	–	–	–	10,626
Total	404,669	1,425,451	693,251	634,024	–	283,882	3,441,277
Loan commitments and guarantees	–	1,103,334	–	–	–	–	1,103,334

2.6 Capital management

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

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

An annual Internal Capital Adequacy Assessment Process ("ICAAP"), which is subject to FSA review, is also undertaken to review the risks and capital requirements of the business over a rolling three year planning cycle. 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.

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(forming part of the Financial Statements)

2 Financial Risk Management (continued)

2.6 Capital management (continued)

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

	2010 £m	2009 £m
Tier 1 capital		
Called up share capital	577	577
Share premium account	979	979
Retained earnings and other reserves	2657	2354
Pension fund valuation adjustment	578	116
Deductions from tier 1 capital	(49)	(51)
Total tier 1 capital	4742	3975
Tier 2 Capital		
Perpetual subordinated debt	1243	2709
Collective provisions	344	233
Other items	02	–
Deductions from tier 2 capital	–	(82)
Total tier 2 capital	1589	2860
Total tier 1 & 2 capital	6331	6835
Deductions from total of tier 1 and tier 2 capital*	(1614)	(1611)
Capital Resources	4717	5224

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

3. Fair Value of Financial Assets and Liabilities

Fair value of financial instruments

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

Notes to the Financial Statements

(forming part of the Financial Statements)

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

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Fair value of financial instruments (continued)

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 cash flows, discount rates, volatility, and credit quality.

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

- **Cash and balances at central banks, loans and receivables to banks and deposits by banks** Fair value of these instruments is materially the same as their carrying value due to the short term nature of the financial asset or liability.
- **Loans and receivables to customers** have been reviewed and their terms and pricing compared to recent similar transactions. Where a material difference in terms and/or pricing has been observed, or where there is any other indication that the fair value of the asset differs materially from its carrying value, the disclosed fair value has been adjusted accordingly.
- **Repurchase agreements and amounts due to customers** The fair value of these instruments is determined by discounting the future cashflows at market interest rates adjusted for the appropriate credit spread.
- **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.
- **Derivative financial instruments 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. Within debt securities, a portfolio of a small number of asset backed securities has been difficult to price due to a lack of liquidity in the market. The fair value of these securities is based on external estimates together with values ascribed to them in repo transactions. As a result of the global credit crunch, there are few underlying transactions against which to calibrate these valuations and quoted prices are significantly below par value although the assets are not considered to be impaired. Nonetheless, where there is a quoted market price, it has been used to determine fair value at the balance sheet date.

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(forming part of the Financial Statements)

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

Fair value of financial instruments (continued)

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	Carrying Value 2010 £'000	Fair Value 2010 £'000	Carrying Value 2009 £'000	Fair Value 2009 £'000
Carried at amortised cost				
Group				
Financial assets				
Loans and receivables to customers	1,087,835	922,572	1,468,947	1,085,862
Financial liabilities				
Deposits by banks	279,505	279,340	449,974	449,974
Repurchase agreements	208,378	208,680	832,808	833,055
Due to customers	1,236,490	1,241,785	663,157	663,157
Debt securities in issue	465,909	457,985	985,139	966,162
Subordinated liabilities	–	–	271,014	121,178
Company				
Financial assets				
Loans and receivables to customers	1,103,382	938,119	1,515,102	1,132,017
Financial liabilities				
Deposits by banks	277,977	277,812	447,934	447,934
Repurchase agreements	208,378	208,680	832,808	833,055
Due to customers	1,678,608	1,683,903	1,474,495	1,455,518
Debt securities in issue	89,091	89,288	271,365	271,365
Subordinated liabilities	–	–	271,014	121,178

	Carrying value equal to fair value £'000	Measured using Level 1 £'000	Level 2 £'000	Level 3 £'000
Carried at fair value				
Group – as at 31 March 2010				
Financial assets				
Financial assets – trading	4,433	5	4,428	–
Financial assets held for risk management purposes	12,714	–	12,714	–
Available-for-sale financial assets	760,813	627,907	54,960	77,946
Total	777,960	627,912	72,102	77,946
Financial liabilities				
Financial liabilities – trading	4,368	–	4,368	–
Financial liabilities held for risk management purposes	16,373	–	16,373	–
Total	20,741	–	20,741	–

Notes to the Financial Statements

(forming part of the Financial Statements)

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

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Fair value of financial instruments (continued)

	Carrying value equal to fair value £'000	Measured using		
		Level 1 £'000	Level 2 £'000	Level 3 £'000
Company – as at 31 March 2010				
Financial assets				
Financial assets – trading	4,433	5	4,428	–
Financial assets held for risk management purposes	12,714	–	12,714	–
Available-for-sale financial assets	758,951	626,045	54,960	77,946
Total	776,098	626,050	72,102	77,946
Financial liabilities				
Financial liabilities – trading	4,368	–	4,368	–
Financial liabilities held for risk management purposes	16,277	–	16,277	–
Total	20,645	–	20,645	–
Group – as at 31 March 2009				
Financial assets				
Financial assets – trading	5,596	40	5,556	–
Financial assets held for risk management purposes	4,201	–	4,201	–
Available-for-sale financial assets	1,046,715	933,540	39,107	74,068
Total	1,056,512	933,580	48,864	74,068
Financial liabilities				
Financial liabilities – trading	5,458	6	5,452	–
Financial liabilities held for risk management purposes	32,753	–	32,753	–
Total	38,211	6	38,205	–
Company – as at 31 March 2009				
Financial assets				
Financial assets – trading	5,596	40	5,556	–
Financial assets held for risk management purposes	4,201	–	4,201	–
Available-for-sale financial assets	1,045,915	932,740	39,107	74,068
Total	1,055,712	932,780	48,864	74,068
Financial liabilities				
Financial liabilities – trading	5,458	6	5,452	–
Financial liabilities held for risk management purposes	32,250	–	32,250	–
Total	37,708	6	37,702	–

Notes to the Financial Statements

(forming part of the Financial Statements)

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

Fair value of financial instruments (continued)

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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 as at 31 March 2010

There were no significant transfers between assets valued at Level 1 and at Level 2 in the year The following table presents the movement in assets valued using Level 3 valuation methods in the year

Available-for-sale financial assets	Group £'000	Company £'000
At 1 April 2009	74,068	74,068
Total gains and (losses)		
– in income statement	(2,793)	(2,793)
– through other comprehensive income	5,855	5,855
Settlements	(38)	(38)
Transfers into/(out of) Level 3	1,220	1,220
Exchange	(366)	(366)
At 31 March 2010	77,946	77,946

Total losses of £2,793,000 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 cash flows 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 2010 £'000	Company 2010 £'000
Current fair value	77,946	77,946
Cash flow +10% addition to fair value	7,806	7,806
Cash flow -10% reduction in fair value	7,785	7,785

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4. Net Interest Income

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	2010 £'000	2009 £'000
Interest income		
Loans and receivables	77,902	180,822
Available-for-sale financial assets	13,622	61,234
Other	1,211	1,786
	92,735	243,842
Interest expense and similar charges		
Amounts due to banks and customers	46,088	124,608
Debt securities in issue	18,804	55,631
Subordinated liabilities	1,564	14,807
	66,456	195,046

Included within interest income is £5,668,000 (2009 £2,611,000) in respect of interest income accrued on impaired financial assets

5. Net Fee and Commission Income

	2010 £'000	2009 £'000
Fee and commission income		
Banking and credit-related fees and commissions	5,218	5,896
Fees for advisory work and other services	360,695	347,967
Other fees	15,760	8,443
	381,673	362,306
Fee and commission expense		
Investment banking advisory fees payable	29,241	21,767
Other fees payable	317	135
	29,558	21,902

Investment banking 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

6. Dividend Income

	2010 £'000	2009 £'000
Available-for-sale financial assets	1,827	1,697

Notes to the Financial Statements

(forming part of the Financial Statements)

7. Net Trading Income

	2010 £'000	2009 £'000
Foreign exchange (losses)/gains	(2,069)	8,115
Interest rate instruments - trading	782	591
Interest rate instruments - hedging	(125)	313
Equities	707	(987)
	(705)	8,032

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

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

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

8 Fair Value Movements

Fair value movements represent the change in fair value of synthetic CDO investments attributable to credit derivatives, as explained in note 1. Synthetic CDOs take on credit exposure in the form of credit derivatives which, under IFRS, must be treated as “embedded derivatives” with changes in fair value recognised in the income statement. All synthetic CDOs were sold in the year ended 31 March 2009.

9. Operating Expenses

	Note	2010 £'000	2009 £'000
Staff costs	10	255,384	241,170
Administrative expenses		70,837	64,122
		326,221	305,292

The auditor's remuneration was as follows:

	2010 £'000	2009 (restated) £'000
Audit fees relating to the Company	256	236
Audit fees relating to subsidiary undertakings	417	497
Audit fees relating to subsidiary undertakings in respect of the prior year	64	–
	737	733

Notes to the Financial Statements

(forming part of the Financial Statements)

9 Operating Expenses (continued)

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

	2010 £'000	2009 £'000
Non-audit services pursuant to legislation including interim reviews	43	40
Tax services	342	119
Accounting advice	25	65
Other work	4	17
	414	241

10. Staff Costs

	Note	2010 Group £'000	2010 Company £'000	2009 Group £'000	2009 Company £'000
Salaries (excluding profit share)		85,825	49,902	82,251	51,558
Social security costs		9,067	5,409	8,477	5,708
Staff benefits and other staff costs		16,348	9,751	13,776	10,153
Pension costs					
– Defined benefit plans	26	5,152	5,009	(14,422)	(14,942)
– Defined contribution plans	26	3,353	2,196	3,137	2,105
Post-retirement benefits		641	718	649	649
Staff costs (excluding profit share)		120,386	72,985	93,868	55,231
Directors' and employees' annual profit share		134,594	92,965	146,723	108,815
Long term profit share schemes		404	404	579	1,308
Directors' and employees' profit share		134,998	93,369	147,302	110,123
Total staff costs		255,384	166,354	241,170	165,354

The average number of persons employed by the Group during the year was 1,204 (2009 1,191). The number of persons employed at 31 March 2010 was 1,194 (2009 1,231). The average number of persons employed by the Company during the year was 728 (2009 754). The number of persons employed by the Company at 31 March 2010 was 722 (2009 744).

Notes to the Financial Statements

(forming part of the Financial Statements)

II Taxation

Tax charged to the income statement

	2010 £'000	2009 £'000
Current tax		
– Current period	(1,943)	15,389
– Prior year adjustments	(1,473)	8,993
Total current tax (credit)/charge	(3,416)	24,382
Deferred tax		
– Origination and reversal of timing differences	2,134	(5,891)
– Prior year adjustments	3,050	(9,474)
Total deferred tax charge/(credit)	5,184	(15,365)
Total tax charged to income statement	1,768	9,017

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

	2010 £'000	2009 £'000
Deferred tax on available-for-sale financial assets	(5,739)	15,140
Current tax on available-for-sale financial assets	(18,159)	7,458
Deferred tax on cash flow hedges	(457)	763
Deferred tax on actuarial gains and losses on defined benefit pension schemes	20,696	14,516
Total tax (charged)/credited to other comprehensive income	(3,659)	37,877

Tax on items credited to equity

	2010 £'000	2009 £'000
Current tax on distributions to non-controlling interests	3,765	–

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

	2010 £'000	2009 £'000
Profit before tax	137,918	50,542
Tax calculated at the UK corporation tax rate of 28% (2009: 28%)	38,617	14,152
Adjustment to tax charge in respect of prior years	1,577	(481)
Income from associate recorded net of tax in profit before tax	(462)	(92)
Non tax deductible expenses	982	1,480
Effect of different tax rates in other countries	(1,435)	4,081
Income not subject to tax	(37,709)	(10,101)
Previously unrecorded deferred tax now recognised	(161)	–
Other	359	(22)
Total tax charged to income statement	1,768	9,017

Further information about deferred tax is presented in note 25

Notes to the Financial Statements

(forming part of the Financial Statements)

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

£117,036,000 (2009: £25,900,000) of the Group profit attributable to ordinary shareholders has been dealt with in the accounts of the Company. As permitted by Section 408 of the Companies Act 2006, the income statement of the Company has not been presented separately.

13. Loans and Receivables

	2010 Group £'000	2010 Company £'000	2009 Group £'000	2009 Company £'000
Loans and receivables to banks				
Included in cash and cash equivalents	171,613	97,714	493,816	396,473
Other	11,762	–	2,977	–
	183,375	97,714	496,793	396,473
Loans and receivables to customers				
Loans and receivables to customers - at amortised cost	1,177,993	1,189,394	1,539,665	1,581,298
Allowance for credit losses	(90,158)	(86,012)	(70,718)	(66,196)
	1,087,835	1,103,382	1,468,947	1,515,102

Loans and receivables to customers include finance lease receivables as follows:

	2010 £'000	2009 £'000
Group		
Gross investment in finance leases, receivable		
1 year or less	38,273	40,046
5 years or less but over 1 year	60,084	64,333
Over 5 years	1,119	845
	99,476	105,224
Unearned future finance income on finance leases	(16,946)	(18,517)
Net investment in finance leases	82,530	86,707

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

	2010 £'000	2009 £'000
Group		
1 year or less	32,011	33,211
5 years or less but over 1 year	49,632	52,750
Over 5 years	887	746
	82,530	86,707

Notes to the Financial Statements

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13. Loans and Receivables (continued)

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

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	Specific £'000	Group Collective £'000	Total £'000	Specific £'000	Company Collective £'000	Total £'000
At 1 April 2009	47,417	23,301	70,718	43,586	22,610	66,196
Charge to income statement	41,791	11,117	52,908	42,171	11,196	53,367
Amounts written off	(33,216)	–	(33,216)	(33,216)	–	(33,216)
Recoveries	199	–	199	116	–	116
Exchange movements	(451)	–	(451)	(451)	–	(451)
At 31 March 2010	55,740	34,418	90,158	52,206	33,806	86,012
At 1 April 2008	3,395	8,012	11,407	566	7,187	7,753
Charge to income statement	46,252	15,584	61,836	45,578	15,718	61,296
Amounts written off	(3,334)	(295)	(3,629)	(3,662)	(295)	(3,957)
Recoveries	17	–	17	17	–	17
Foreign currency translation and other adjustments	1,087	–	1,087	1,087	–	1,087
At 31 March 2009	47,417	23,301	70,718	43,586	22,610	66,196

Allowance for credit losses relates to loans to customers

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 receivables those financial assets to which the definition of loans and receivables would apply on the reclassification date. On the reclassification date and on 31 March 2010 the Group had the financial capacity to keep the loans concerned to their maturity date or for the foreseeable future. There were no further reclassifications in the year ended 31 March 2010. The movements in the fair value of the financial assets reclassified are as follows:

	2010 £'000	2009 £'000
Carrying value of assets to be reclassified at 1 April 2008	–	340,483
Impairments before reclassification	–	–
Fair value movements before reclassification	–	10,059
Other movements	–	(2,960)
Carrying amount of assets reclassified on 1 April 2009/1 July 2008	386,646	347,582
Impairments after reclassification	(6,067)	(9,101)
Sale and redemptions	(115,090)	(17,765)
Further drawdown of revolving credit facilities	3,139	–
Amortisation of frozen available-for-sale reserve	10,675	9,806
Exchange and other movements	(10,577)	56,124
Closing carrying amount of assets reclassified	268,726	386,646

Notes to the Financial Statements

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13. Loans and Receivables (continued)

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	2010 £'000	2009 £'000
Fair value of assets reclassified on 1 April 2009/1 July 2008	261,942	347,582
Sale and redemptions	(123,223)	(17,765)
Further drawdown of revolving credit facilities	3,139	–
Fair value movements in the period after reclassification	103,478	(133,859)
Exchange and other movements	4,363	65,984
Closing fair value of assets reclassified	249,699	261,942

As of the reclassification date, the net effective interest rates, after associated funding costs, on reclassified financial assets was 2.88 per cent

A revaluation gain of £109,545,000 would have been recognised in other comprehensive income in the year to 31 March 2010 had the assets not been reclassified (2009 revaluation loss of £124,758,000)

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

	2010 £'000	1 July 2008 to 31 March 2009 £'000
Net interest income	4,610	5,737
Impairment losses	(6,067)	(9,101)
Loss on disposals	(2,622)	–
Profit before tax on reclassified financial assets	(4,079)	(3,364)

14. Available-For-Sale Financial Assets

	2010 Group £'000	2010 Company £'000	2009 Group £'000	2009 Company £'000
Debt securities	676,647	676,647	961,654	961,654
Allowance for impairment	(26,433)	(26,433)	(24,498)	(24,498)
Total debt securities - at fair value	650,214	650,214	937,156	937,156
Equity securities	113,552	111,590	110,560	109,660
Allowance for impairment	(2,953)	(2,853)	(1,001)	(901)
Total equity securities - at fair value	110,599	108,737	109,559	108,759
Total available-for-sale financial assets	760,813	758,951	1,046,715	1,045,915

Notes to the Financial Statements

(forming part of the Financial Statements)

14 Available-For-Sale Financial Assets (continued)

	2010 Group £'000	2010 Company £'000	2009 Group £'000	2009 Company £'000
Available-for-sale financial assets may be analysed as follows				
Debt securities				
– Listed	646,284	646,284	932,521	932,521
– Unlisted	3,930	3,930	4,635	4,635
Total debt securities	650,214	650,214	937,156	937,156
Equity securities				
– Listed	31,951	30,281	36,487	35,879
– Unlisted	78,648	78,456	73,072	72,880
Total equity securities	110,599	108,737	109,559	108,759
Total available-for-sale financial assets	760,813	758,951	1,046,715	1,045,915

Available-for-sale debt securities of £336,380,000 (2009 £807,709,000) were pledged as security under sale and repurchase agreements

Equity securities as at 31 March 2010 include shares in Paris Orléans SA, Third New Court Limited and Rothschild Holding AG, fellow subsidiaries of Rothschild Concordia SAS

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

	2010 Group £'000	2010 Company £'000	2009 Group £'000	2009 Company £'000
Debt securities				
At 1 April	24,498	24,498	22,929	22,929
Charge to income statement	2,793	2,793	21,289	21,289
Exchange movements	(858)	(858)	3,020	3,020
Amounts written off	–	–	(4,734)	(4,734)
Disposals (sale and redemption)	–	–	(18,006)	(18,006)
At 31 March	26,433	26,433	24,498	24,498
Equity securities				
At 1 April	1,001	901	901	901
Charge to income statement	1,869	1,869	100	–
Exchange movements	83	83	–	–
At 31 March	2,953	2,853	1,001	901

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(forming part of the Financial Statements)

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

The movement in available-for-sale financial assets may be summarised as follows

	2010 Group £'000	2010 Company £'000	2009 Group £'000	2009 Company £'000
At 1 April	1,046,715	1,045,915	1,986,305	1,983,880
Exchange differences	(32,595)	(32,595)	194,269	194,269
Additions	382,682	382,490	55,748	55,556
Disposals (sales and redemptions)	(701,323)	(701,323)	(730,582)	(730,582)
Gains/(losses) from changes in fair value	69,996	69,126	(77,660)	(75,943)
Movement in allowance for impairment	(3,887)	(3,887)	(1,669)	(1,569)
Reclassification to loans and receivables	–	–	(347,582)	(347,582)
Reclassification to associated undertaking	–	–	(27,280)	(27,280)
Amounts written off	–	–	(4,834)	(4,834)
Unwinding of discount	(775)	(775)	–	–
At 31 March	760,813	758,951	1,046,715	1,045,915

15 Derivative Financial Instruments

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

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

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

- Forward contracts and futures – contractual obligations to buy or sell financial instruments on a future date at a specified price. Forward contracts are OTC contracts, whereas futures are exchange traded derivatives.
- Interest rate swaps – transactions in which two parties exchange interest cash flows on a specified notional amount for a predetermined period. Most swaps are OTC instruments. Interest rate swap contracts generally entail the contractual exchange of fixed and floating rate interest payments in a single currency.

Notes to the Financial Statements

(forming part of the Financial Statements)

15. Derivative Financial Instruments (continued)

- 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.

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

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 2010 showed a net loss of £1,753,000 (2009 loss of £15,535,000). Fair value losses of £9,365,000 (2009 losses of £11,834,000) on derivatives held in qualifying fair value hedging relationships are included in net trading income. Fair value gains of £9,115,000 (2009 gains of £12,044,000), which relate to changes in fair value of hedged items attributable to the hedged risk, are also included in net trading income.

Cashflow Hedges

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

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

A profit of £125,000 (2009 profit of £103,000) was recognised in the income statement in respect of the ineffective portion of cash flow hedges.

The fair value of derivatives designated as cash flow hedges at 31 March 2010 showed a net loss of £1,885,000 (2009 loss of £11,244,000). At 31 March 2010, an unrecognised fair value loss of £1,885,000 (2009 £3,516,000) associated with these derivatives has remained deferred in shareholders' equity and will be transferred to the income statement when the hedged cash flows affect profit or loss. Amounts relating to cash flow hedges transferred to 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 2010					
Cash outflows (liabilities)	(3,296)	–	–	–	–
As at 31 March 2009					
Cash outflows (liabilities)	(2,439)	(11,060)	(10,898)	(31,502)	(94,610)

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(forming part of the Financial Statements)

15. Derivative Financial Instruments (continued)

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	Notional principal		Positive fair value		Negative fair value	
	2010	2009	2010	2009	2010	2009
	£'000	£'000	£'000	£'000	£'000	£'000
Group						
Contracts held for risk management purposes						
Derivatives designated as hedges						
Fair value interest rate swaps	989,614	289,747	12,639	442	(14,392)	(15,977)
Cash flow interest rate swaps	86,130	228,905	–	2,107	(1,885)	(13,351)
Other derivatives held for risk management purposes						
Interest rate swaps	10,605	45,244	–	886	(96)	(503)
OTC interest rate options	12,473	12,976	75	77	–	–
Forward foreign exchange contracts	–	464,103	–	689	–	(2,922)
	1,098,822	1,040,975	12,714	4,201	(16,373)	(32,753)
Contracts held for trading purposes						
Forward foreign exchange contracts	162,250	215,156	1,689	1,966	(1,780)	(1,966)
Interest rate swaps	87,348	118,051	2,666	3,590	(2,588)	(3,486)
OTC interest rate options	–	92,682	–	–	–	–
Exchange traded interest rate futures	5,934	31,287	5	40	–	(6)
Other	–	–	73	–	–	–
	255,532	457,176	4,433	5,596	(4,368)	(5,458)
	1,354,354	1,498,151	17,147	9,797	(20,741)	(38,211)
Company						
Contracts held for risk management purposes						
Derivatives designated as hedges						
Fair value interest rate swaps	989,614	289,747	12,639	442	(14,392)	(15,977)
Cash flow interest rate swaps	86,130	228,905	–	2,107	(1,885)	(13,351)
Other derivatives held for risk management purposes						
Interest rate swaps	–	20,000	–	886	–	–
OTC interest rate options	12,473	12,976	75	77	–	–
Forward foreign exchange contracts	–	464,103	–	689	–	(2,922)
	1,088,217	1,015,731	12,714	4,201	(16,277)	(32,250)
Contracts held for trading purposes						
Forward foreign exchange contracts	162,250	215,156	1,689	1,966	(1,780)	(1,966)
Interest rate swaps	87,348	118,051	2,666	3,590	(2,588)	(3,486)
OTC interest rate options	–	92,682	–	–	–	–
Exchange traded interest rate futures	5,934	31,287	5	40	–	(6)
Other	–	–	73	–	–	–
	255,532	457,176	4,433	5,596	(4,368)	(5,458)
	1,343,749	1,472,907	17,147	9,797	(20,645)	(37,708)

In derivatives designated as hedges, the notional value of fair value interest rate swaps has increased significantly in the year largely due to the hedging of new fixed term deposits, which were raised as a result of the Rothschild Reserve offerings during the year

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(forming part of the Financial Statements)

16. Other Assets

	2010 Group £'000	2010 Company £'000	2009 Group £'000	2009 Company £'000
Accounts receivable and prepayments (net of allowances of £5,411,000 (2009 £7,346,000))	117,985	59,872	104,379	69,047
Accrued income	17,477	15,532	32,893	18,909
Other	7,553	3,511	12,155	2,982
	143,015	78,915	149,427	90,938

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17. Non-current Assets Held for Sale and Related Liabilities

	2010 £'000	2009 £'000
Non-current assets held for sale		
Leasehold assets	41,147	33,012
Less provision on leasehold asset	(3,141)	(2,520)
Other	27	44
	38,033	30,536
Liabilities related to non-current assets held for sale		
Borrowings from financial institutions	33,772	27,254
Other	1,820	1,399
	35,592	28,653

The non-current assets and liabilities held for sale are associated with a leasehold asset at an Australian university consisting of student accommodation and other commercial tenants. The assets are carried at cost less impairment provisions. Negotiations with an interested party regarding a potential sale are in progress.

18. Investments in Associated Undertakings

Group	2010 £'000	2009 £'000
At 1 April	37,281	30,201
Additions	—	5,802
Reclassification from available-for-sale financial assets	—	27,280
Reclassification to subsidiary undertaking	—	(25,941)
Share of results (net of tax)	2,564	369
Increases in fair value	—	207
Dividends	(1,511)	(1,814)
Exchange differences	(571)	1,177
At 31 March	37,763	37,281

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18. Investments in Associated Undertakings (continued)

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

Group's share of	2010 £'000	2009 £'000
Assets	76,587	97,794
Liabilities	38,824	63,627
Revenues	23,000	28,911
Results (net of tax)	2,564	369

The Company holds a 9.38 per cent interest in Rothschild & Cie Banque, a French limited partnership, which carries out banking activities in France. The Company also holds a 40.0 per cent interest in Quintus European Mezzanine Fund Limited Partnership, a Jersey limited partnership that is an investment vehicle for institutional investors.

The Group's interests in associated undertakings are held by the Company at historical cost of £37,692,000 (2009: £37,692,000).

19. Investments in Joint Ventures

Jointly controlled entities

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 investment banking advisory activities in continental Europe and are accounted for as jointly controlled entities in accordance with IAS 31. Interests in Joint Ventures using the proportionate consolidation method. The Group's share of assets, liabilities, income and expenses of the partnerships is as follows:

	2010 £'000	2009 £'000
Current assets	13,363	10,525
Current liabilities	6,590	9,419
Income	14,316	9,801
Expenses	9,251	9,317

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(forming part of the Financial Statements)

20. Intangible Assets

Group	Intellectual Property Rights £'000	Goodwill £'000	Total £'000
Cost at 1 April 2009	1 000	14 534	15,534
Additions	–	(56)	(56)
At 31 March 2010	1,000	14,478	15,478
Accumulated amortisation at 1 April 2009	675	–	675
Amortisation charge	100	–	100
At 31 March 2010	775	–	775
Net book value at 31 March 2010	225	14,478	14,703
Cost at 1 April 2008	1,000	14,195	15,195
Acquisition of subsidiary undertaking	–	339	339
At 31 March 2009	1,000	14,534	15,534
Accumulated amortisation at 1 April 2008	575	–	575
Amortisation charge	100	–	100
At 31 March 2009	675	–	675
Net book value at 31 March 2009	325	14,534	14,859

£9,786,000 of goodwill relates to the purchase of 51 per cent of the share capital of Lanebridge Investment Management Limited in 2007. The remaining 49 per cent was acquired in December 2009 for further consideration of £3,015,000, of which, £2,310,000 is deferred. The difference between the additional consideration paid and the additional net assets acquired of £1,025,000 was recognised directly in equity.

In assessing impairment of goodwill, the Group has used the latest forecasts of Lanebridge Investment Management Limited for the periods to March 2014 and assumed net cashflows thereafter of £500,000 per annum. A discount rate of 14 per cent was used on the resulting cashflows which supported the existing goodwill valuation.

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21. Property, Plant and Equipment

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Group	Land and Buildings £'000	Leasehold Improvements £'000	Cars, Fixtures and Fittings £'000	Computer Equipment £'000	Total £'000
Cost at 1 April 2009	—	12,077	20,999	24,428	57,504
Additions	—	4,283	3,606	807	8,696
Disposals	—	—	(1,892)	(454)	(2,346)
Acquisition of subsidiary undertakings	—	—	30	3	33
Exchange differences	—	(138)	180	18	60
At 31 March 2010	—	16,222	22,923	24,802	63,947
Accumulated depreciation at 1 April 2009	—	5,631	12,077	21,850	39,558
Disposals	—	—	(1,573)	(427)	(2,000)
Depreciation charge	—	2,470	2,641	1,495	6,606
Exchange differences	—	(5)	(180)	14	(171)
At 31 March 2010	—	8,096	12,965	22,932	43,993
Net book value at 31 March 2010	—	8,126	9,958	1,870	19,954
Cost at 1 April 2008	16,614	15,359	15,967	22,039	69,979
Additions	—	1,120	2,450	847	4,417
Disposals	(16,614)	(129)	(2,147)	(81)	(18,971)
Acquisition of subsidiary undertakings	—	2,007	3,938	1,816	7,761
Disposal of subsidiary undertaking	—	(6,573)	(593)	(469)	(7,635)
Reclassification of operating lease assets from loans and receivables	—	—	933	—	933
Exchange differences	—	293	451	276	1,020
At 31 March 2009	—	12,077	20,999	24,428	57,504
Accumulated depreciation at 1 April 2008	—	2,667	9,722	19,310	31,699
Disposals	—	(90)	(1,302)	(79)	(1,471)
Depreciation charge	—	3,143	2,611	1,507	7,261
Acquisition of subsidiary undertakings	—	487	906	1,253	2,646
Disposal of subsidiary undertaking	—	(676)	(402)	(330)	(1,408)
Reclassification of operating lease assets from loans and receivables	—	—	378	—	378
Exchange differences	—	100	164	189	453
At 31 March 2009	—	5,631	12,077	21,850	39,558
Net book value at 31 March 2009	—	6,446	8,922	2,578	17,946

Included within the net book value of cars, fixtures and fittings for the Group as at 31 March 2010 is £5,502,000 (2009 £4,199,000) relating to assets held for use in operating leases

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(forming part of the Financial Statements)

21 Property, Plant and Equipment (continued)

Company	Land and Buildings £'000	Leasehold Improvements £'000	Cars, Fixtures and Fittings £'000	Computer Equipment £'000	Total £'000
Cost at 1 April 2009	–	9,856	6,225	19,562	35,643
Additions	–	3,682	18	323	4,023
Disposals	–	–	(25)	(3)	(28)
At 31 March 2010	–	13,538	6,218	19,882	39,638
Accumulated depreciation at 1 April 2009	–	4,703	5,670	18,242	28,615
Disposals	–	–	(16)	–	(16)
Depreciation charge	–	2,064	277	911	3,252
At 31 March 2010	–	6,767	5,931	19,153	31,851
Net book value at 31 March 2010	–	6,771	287	729	7,787
Cost at 1 April 2008	50,000	8,745	6,118	19,219	84,082
Additions	–	1,111	136	343	1,590
Disposals	(50,000)	–	(29)	–	(50,029)
At 31 March 2009	–	9,856	6,225	19,562	35,643
Accumulated depreciation at 1 April 2008	–	2,639	5,238	17,259	25,136
Disposals	–	–	(7)	–	(7)
Depreciation charge	–	2,064	439	983	3,486
At 31 March 2009	–	4,703	5,670	18,242	28,615
Net book value at 31 March 2009	–	5,153	555	1,320	7,028

22. Debt Securities in Issue

	2010 Group £'000	2010 Company £'000	2009 Group £'000	2009 Company £'000
Medium term floating rate notes	376,818	–	713,774	–
Certificates of deposit in issue	89,091	89,091	271,365	271,365
	465,909	89,091	985,139	271,365

Medium term notes are issued under the Group's Euro Medium Term Note programme. The notes are issued at a floating rate of interest and had residual maturities of between 1 month and 1 year 6 months as at 31 March 2010 (2009: between 11 months and 2 years 6 months). Certificates of deposit issued by the Company had residual maturity dates of up to 4 months as at 31 March 2010 (2009: 10 months) and are issued at a fixed rate of interest.

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23. Other Liabilities

	Note	2010 Group £'000	2010 Company £'000	2009 Group £'000	2009 Company £'000
Accounts payable		35,771	15,044	41,343	5,500
Defined benefit pension liabilities	26	88,775	87,073	26,930	24,846
Other liabilities		6,685	6,942	4,012	1,955
		131,231	109,059	72,285	32,301

24. Subordinated Liabilities

	2010 Group £'000	2010 Company £'000	2009 Group £'000	2009 Company £'000
Preference shares				
£100,000 cumulative redeemable preference shares	–	–	100	100
Subordinated notes				
Perpetual floating rate subordinated notes (€150 million)	–	–	119,150	–
Due to fellow subsidiary undertakings				
Perpetual floating rate subordinated loan (€150 million)	–	–	–	119,150
Perpetual floating rate subordinated loan (US\$100 million)	–	–	52,394	52,394
Perpetual fixed rate subordinated loan (£75 million)	–	–	99,370	99,370
	–	–	271,014	271,014

On 29 May 2009 the Company redeemed the £100,000 cumulative redeemable preference shares it had previously issued. The consequence of that is that the interest payments on the Group's perpetual subordinated notes are no longer contractual obligations. In accordance with the requirements of IAS 32 and IAS 39, the subordinated debt instruments have now been reclassified as equity at their fair value on 29 May 2009. The overall effect of this reclassification gave rise to a profit of £133,748,000 in the Group income statement.

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25. Deferred Income Taxes

Deferred taxes are calculated on all temporary differences under the liability method using an effective tax rate of 28 per cent (2009 28 per cent)

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The movement on the deferred tax account is as follows

	2010 Group £'000	2010 Company £'000	2009 Group £'000	2009 Company £'000
At 1 April	101,455	89,695	51,992	44,626
Acquisition of subsidiaries	–	–	3,679	–
Recognised in income				
Income statement (charge)/credit	(5,184)	(5,247)	15,365	15,130
Recognised in other comprehensive income				
Defined benefit pension arrangements	20,696	20,696	14,516	14,516
Available-for-sale securities				
– Fair value measurement	(5,739)	(5,496)	22,158	21,678
– Transfer to income	–	–	(7,018)	(7,018)
Cash flow hedges				
– Fair value measurement	(457)	(457)	763	763
Exchange differences	1,002	–	–	–
At 31 March	111,773	99,191	101,455	89,695

Deferred tax assets are attributable to the following items

	2010 Group £'000	2010 Company £'000	2009 Group £'000	2009 Company £'000
Accelerated tax depreciation	10,117	4,695	9,933	5,206
Deferred profit share arrangements	45,531	38,958	42,715	40,111
Pension and other post-retirement benefits	26,226	26,226	6,955	6,955
Available-for-sale securities	20,358	20,756	25,962	26,118
Tax losses	5,099	5,079	7,508	6,850
Other temporary differences	4,442	3,477	8,382	4,455
	111,773	99,191	101,455	89,695

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25. Deferred Income Taxes (continued)

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

	2010 Group £'000	2010 Company £'000	2009 Group £'000	2009 Company £'000
Accelerated tax depreciation	183	(511)	3 883	2,019
Deferred profit share arrangements	(1,148)	(1,153)	13,306	13,338
Available-for-sale securities	134	134	134	134
Pensions and other post-retirement benefits	(1,425)	(1,425)	(7,466)	(7,466)
Tax losses	(2 409)	(1,771)	7,508	6,850
Other temporary differences	(519)	(521)	(2 000)	255
	(5,184)	(5,247)	15,365	15,130

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.

Deductible temporary differences relating to unutilised tax losses within the Group for which no deferred tax asset has been recognised is £101,000 (2009 £nil).

Deferred tax liabilities have not been recognised for the withholding tax and other taxes that would be payable on the unremitted earnings of certain subsidiaries and other interests as it is anticipated that such profits would qualify for exemption from UK taxation.

26. 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 2007 and has been updated for IAS 19 purposes to 31 March 2010 by qualified independent actuaries. As required by IAS 19, the value of the defined benefit obligation and current service cost have been measured using the projected unit credit method.

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26. Retirement Benefit Obligations (continued)

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

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Group and Company	2010	2009	2008
Discount rate	5.60%	7.00%	6.50%
Retail price inflation	3.70%	3.20%	3.60%
Expected rate of salary increases	4.70%	4.20%	4.60%
Expected rate of increase in pensions in payment			
– Capped at 5.0% per annum	3.60%	3.10%	3.50%
– Capped at 2.5% per annum	2.40%	2.20%	2.30%
Life expectancy of a pensioner aged 60			
– Male	27.3	27.1	26.4
– Female	29.1	29.1	28.9
Life expectancy of a future pensioner aged 60 in 20 years time			
– Male	29.4	29.3	27.7
– Female	30.4	30.3	29.9

Movement in defined benefit obligation

	2010 Group £'000	2010 Company £'000	2009 Group £'000	2009 Company £'000
At 1 April	355,737	353,653	417,424	417,424
Acquisition of subsidiary	–	–	1,766	–
Current service cost (net of contributions paid by other plan participants)	2,726	2,583	4,967	4,447
Current service cost relating to other plan participants	1,065	1,065	1,009	1,009
Interest cost	24,336	24,336	26,773	26,773
Actuarial losses/(gains)	143,122	143,235	(61,622)	(61,622)
Benefits paid	(15,326)	(14,996)	(15,823)	(15,315)
Past service costs	–	–	(19,063)	(19,063)
Exchange differences	(82)	–	306	–
At 31 March	511,578	509,876	355,737	353,653

Movement in plan assets

	2010 Group £'000	2010 Company £'000	2009 Group £'000	2009 Company £'000
At 1 April	328,807	328,807	422,764	422,764
Expected return on plan assets	21,910	21,910	27,099	27,099
Actual less expected return on assets	69,327	69,327	(113,472)	(113,472)
Contributions by the Group	17,020	16,690	7,230	6,722
Contributions by other plan participants	1,065	1,065	1,009	1,009
Benefits paid	(15,326)	(14,996)	(15,823)	(15,315)
At 31 March	422,803	422,803	328,807	328,807

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26. Retirement Benefit Obligations (continued)

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At 31 March, the fair value of plan assets comprised

Group and Company	2010 £'000	2009 £'000
Equities	186,762	124,822
Bonds	83,298	63,407
Gilts and cash	81,978	75,843
Property	11,984	11,365
Hedge funds	23,843	20,380
PFI private equity and infrastructure	34,938	32,990
	422,803	328,807

The expected return on assets for the financial year ended 31 March 2010 was 6.9 per cent p.a. (2009 6.8 per cent). The rate of return is derived from the weighted average of the long term expected rates of return on the asset classes in the Trustees' intended long term investment strategy. A deduction was then made from the expected return on assets for the expenses incurred in running the Fund.

The actual return on plan assets in the year was a gain of £91.2 million (2009 loss of £86.4 million).

Amounts recognised in income statement

	Note	2010 Group £'000	2010 Company £'000	2009 Group £'000	2009 Company £'000
Current service cost		2,726	2,583	4,967	4,447
Interest cost		24,336	24,336	26,773	26,773
Expected return on plan assets		(21,910)	(21,910)	(27,099)	(27,099)
Past service costs		–	–	(19,063)	(19,063)
Total (included in staff costs)	10	5,152	5,009	(14,422)	(14,942)

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

	2010 £'000	2009 £'000	2008 £'000	2007 £'000	2006 £'000
Group					
Present value of fund obligations	507,808	351,751	415,210	444,396	457,165
Fair value of plan assets	(422,803)	(328,807)	(422,764)	(433,465)	(420,984)
	85,005	22,944	(7,554)	10,931	36,181
Present value of unfunded obligations	3,770	3,986	2,214	2,342	2,486
Balance sheet liability/(asset)	88,775	26,930	(5,340)	13,273	38,667
Company					
Present value of fund obligations	507,808	351,751	415,210	444,396	436,970
Fair value of plan assets	(422,803)	(328,807)	(422,764)	(433,465)	(403,612)
	85,005	22,944	(7,554)	10,931	33,358
Present value of unfunded obligations	2,068	1,902	2,214	2,342	2,486
Balance sheet liability/(asset)	87,073	24,846	(5,340)	13,273	35,844

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26. Retirement Benefit Obligations (continued)

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

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	2010 £'000	2009 £'000	2008 £'000	2007 £'000	2006 £'000
Group					
Actual less expected return on assets	69,327	(113,472)	(33,138)	(2,249)	46,532
Experience gains and losses arising on liabilities	2,362	444	(2,982)	4,343	(300)
Company					
Actual less expected return on assets	69,327	(113,472)	(33,138)	(3,157)	45,063
Experience gains and losses arising on liabilities	2,362	444	(2,982)	4,480	(311)

Amounts recognised in the statement of comprehensive income

	2010 Group £'000	2010 Company £'000	2009 Group £'000	2009 Company £'000
Actuarial losses recognised in the year	(73,795)	(73,908)	(51,850)	(51,850)
Cumulative actuarial losses recognised in the statement of comprehensive income	(128,445)	(128,558)	(54,650)	(54,650)

It is estimated that total contributions of £6.7 million will be paid to the Fund in the year ending 31 March 2011, of which it is estimated that the Company will pay £5.7 million

In 2010 the highest paid director was not a member of the defined benefit pension scheme. In 2009, the highest paid director was a member of a defined benefit pension scheme under which his accrued pension at the year end was £161,000

Defined contribution schemes

	Note	2010 Group £'000	2010 Company £'000	2009 Group £'000	2009 Company £'000
Contributions paid	10	3,353	2,196	3,137	2,105

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

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27. Contingent Liabilities and Commitments

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	2010 Group £'000	2010 Company £'000	2009 Group £'000	2009 Company £'000
Guarantees				
Guarantees and irrevocable letters of credit	11,574	522,031	23,160	875,959
Commitments				
Undrawn formal standby facilities, credit lines and other commitments to lend	40,769	78,019	212,785	227,375

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

	2010 £'000	2009 £'000
Group and Company		
Investment securities	336,380	807,709
Loans and receivables	214,082	369,056

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

A mandatory reserve deposit of £21,000 (2009: £388,000) is held with the Bank of England in accordance with statutory requirements. This deposit is not available to finance the Group's day to day operations.

28. Operating Lease Commitments

At 31 March 2010, the Group was obligated under a number of non-cancellable operating leases for premises used primarily for banking purposes. The significant premises leases usually include renewal options and escalation clauses in line with general office rental market conditions.

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

	Land and Buildings		Other	
	2010 £'000	2009 £'000	2010 £'000	2009 £'000
Group				
Up to 1 year	14,112	9,097	245	254
Between 1 and 5 years	63,566	58,658	257	178
More than 5 years	227,839	236,664	-	144
	305,517	304,419	502	576

Operating expenses include operating lease rentals of £13,055,000 (2009: £10,378,000).

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29. Distributions

	2010 £'000	2009 £'000
Other Equity Interests		
Perpetual floating rate subordinated loan (US\$100 million)	1,082	–
Perpetual fixed rate subordinated loan (£75 million)	7,595	–
Perpetual floating rate subordinated notes (€150 million)	4,770	–
	13,447	–
Tax credit thereon	(3,765)	–
	9,682	–
Ordinary Shares		
Interim dividends (paid)	30,000	–
	39,682	–

Dividends per ordinary share was 52p (2009 0p)

30. 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

	2010 Group £'000	2010 Company £'000	2009 Group £'000	2009 Company £'000
Cash and balances at central banks	810,836	810,826	571,597	570,525
Loans and advances to banks	171,613	97,714	493,816	396,473
	982,449	908,540	1,065,413	966,998

31. Transactions with Related Parties

Group

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

	2010 £'000	2009 £'000
At 31 March		
Loans and accrued interest	6	1,303
Deposits	1,129	610

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

Loans to directors are secured and are made in the ordinary course of business on normal commercial terms, with the exception of travel season ticket loans of £6,000 (2009 £8,000) which are unsecured and provided on an interest-free basis. Deposits are taken on normal commercial terms

Notes to the Financial Statements

(forming part of the Financial Statements)

31 Transactions with Related Parties (continued)

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	2010 £'000	2009 £'000
Key management personnel compensation		
Short term employee benefits	7,334	11,137
Post-retirement benefits	86	100
Other long term employee benefits	1,019	2,130

Amounts receivable from related parties of the Group are as follows

	2010		2009	
	Loans and Advances £'000	Other Assets £'000	Loans and Advances £'000	Other Assets £'000
At 31 March				
Amounts due from parent companies	38,224	26	47,295	171
Amounts due from associated undertakings	1,139	538	7,659	364
Amounts due from other related parties	9,364	10,026	35,951	9,787

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

	2010			2009		
	Deposits £'000	Non-controlling Interests £'000	Other Liabilities £'000	Deposits £'000	Subordinated Loan Capital £'000	Other Liabilities £'000
At 31 March						
Amounts due to parent companies	27	–	139	20	–	3,098
Amounts due to joint ventures	7,372	–	–	4,596	–	–
Amounts due to associated undertakings	–	–	6,368	–	–	–
Amounts due to pension funds	9,701	–	1	1,005	–	1
Amounts due to other related parties						
– subordinated	–	72,611	–	–	151,764	–
– other	197,183	–	5,053	247,506	–	5,644

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:

	2010 £'000	2009 £'000
At 31 March		
Guarantees received from other related parties	50,410	10,303

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)

31. Transactions with Related Parties (continued)

Commitments provided to related parties of the Group are as follows

At 31 March	2010 £'000	2009 £'000
Undrawn credit commitments	89	92,914

Other transactions with related parties of the Group are as follows

During the year ended 31 March 2009

- ☐ a freehold property was sold by the Company to a fellow subsidiary of Rothschild Concordia SAS for a consideration of £50,000,000. The Group profit of £33,386,000 is included in other operating income. The consideration comprised 50,000,000 non-voting B shares of £1 each in Third New Court Limited. The investment in New Court Property Services Limited was subsequently sold by the Group to a fellow subsidiary of Rothschild Concordia SAS for £35,300,000, the net asset value of the company.
- ☐ the Group acquired from its immediate parent company, the entire share capital of Rothschild Australia Holdings Limited for £15,095,000, the fair value of the company at the time of the transaction.
- ☐ the Company sold a portfolio of structured finance products to Shield Securities Limited, a fellow subsidiary of Rothschild Concordia SAS, for its fair value. The sale crystallised £4,656,000 of losses that had previously been taken to the available-for-sale reserve.
- ☐ the Company issued 2,500,000 ordinary shares of £1 each to its immediate parent company for a cash consideration of £2,500,000.

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
2010						
Interest receivable	783	–	11	–	40	834
Interest payable	(3)	(33)	–	(13)	(2,406)	(2,455)
Fees and commissions receivable	–	–	414	–	2,936	3,350
Fees and commissions payable	–	(8,448)	(2,386)	–	(21,173)	(32,007)
Dividend income	558	635	1,511	–	798	3,502
Rent payable	–	–	–	–	(7,167)	(7,167)
Recoverable expenses	–	–	–	–	3,639	3,639
2009						
Interest receivable	2,890	–	122	–	1,380	4,392
Interest payable	(563)	(154)	–	(163)	(14,200)	(15,080)
Fees and commissions receivable	–	–	347	–	1,056	1,403
Fees and commissions payable	–	(3,760)	(121)	–	(2,588)	(6,469)
Dividend income	–	–	–	–	1,488	1,488
Other operating income	–	–	–	–	33,386	33,386
Recoverable expenses	–	–	–	–	4,559	4,559

Notes to the Financial Statements

(forming part of the Financial Statements)

31 Transactions with Related Parties (continued)

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

Company

Amounts receivable from related parties of the Company are as follows

At 31 March	2010		2009	
	Loans and Advances £'000	Other Assets £'000	Loans and Advances £'000	Other Assets £'000
Amounts due from parent companies	38,224	26	47,295	161
Amounts due from subsidiary undertakings	131,237	8,809	183,405	12,713
Amounts due from associated undertakings	1,139	538	2,969	364
Amounts due from other related parties	9,292	9,830	35,879	9,208

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	2010			2009		
	Deposits £'000	Perpetual Instruments £'000	Other Liabilities £'000	Deposits £'000	Subordinated Loan Capital £'000	Other Liabilities £'000
Amounts due to parent companies	27	–	139	20	–	130
Amounts due to subsidiary undertakings						
– subordinated	–	51,724	–	–	119,150	–
– other	473,685	–	12,672	823,006	–	5,818
Amounts due to joint ventures	14,744	–	–	9,193	–	–
Amounts due to associated undertakings	–	–	6,368	–	–	–
Amounts due to pension funds	9,701	–	1	1,005	–	1
Amounts due to other related parties						
– subordinated	–	72,611	–	–	151,764	–
– other	197,183	–	4,854	247,506	–	3,928

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	2010 £'000	2009 £'000
Guarantees made on behalf of subsidiary undertakings	510,455	852,799
Guarantees received from other related parties	50,410	10,303

Notes to the Financial Statements

(forming part of the Financial Statements)

31. Transactions with Related Parties (continued)

Company (continued)

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The Company has guaranteed £133,637,000 (2009 £139,023,000) of perpetual floating rate subordinated notes and £376,818,000 (2009 £713,774,000) 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

	2010	2009
At 31 March	£'000	£'000
Undrawn credit commitments	37,339	107,504

Other transactions with related parties of the Company are as follows

The Company has entered into lease agreements with a fellow subsidiary of Rothschild Concordia SAS for the rental of office space. One lease agreement expires in 2018 whilst the other expires in 2035. Both leases are on normal commercial terms.

During the year ended 31 March 2009, the Company transferred its holding of 50.0 per cent of the issued share capital of Rothschild Europe BV to a subsidiary undertaking, Shield Trust Limited, in consideration for the issue of 39,277 ordinary shares of £1 each (at a premium of £139.75 per share) in Shield Trust Limited.

During the year ended 31 March 2009, the Company transferred its 50.0 per cent joint venture interest in Rothschild Europe SNC to a subsidiary undertaking, Rothschild Gold Limited, in consideration for the issue of 53,800 ordinary shares of £1 each in Rothschild Gold Limited.

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

	Parent Companies	Subsidiary Undertakings	Joint Ventures	Associated Undertakings	Pension Funds	Other Related Parties	Total
	£'000	£'000	£'000	£'000	£'000	£'000	£'000
2010							
Interest receivable	783	3,298	-	11	-	40	4,132
Interest payable	(3)	(9,649)	(65)	-	(13)	(2,406)	(12,136)
Fees and commissions receivable	-	49	-	414	-	2,936	3,399
Fees and commissions payable	-	(15,897)	(16,896)	(2,386)	-	(21,173)	(56,352)
Dividend income	558	18,868	-	1,511	-	798	21,735
Rent payable	-	-	-	-	-	(7,167)	(7,167)
Recoverable expenses	-	(3,537)	-	-	-	3,639	102

Notes to the Financial Statements

(forming part of the Financial Statements)

31. Transactions with Related Parties (continued)

Company (continued)

	Parent Companies £'000	Subsidiary Undertakings £'000	Joint Ventures £'000	Associated Undertakings £'000	Pension Funds £'000	Other Related Parties £'000	Total £'000
2009							
Interest receivable	2,890	6,866	–	122	–	1,380	11,258
Interest payable	(431)	(40,188)	(307)	–	(163)	(14,200)	(55,289)
Fees and commissions receivable	–	108	–	347	–	1,056	1,511
Fees and commissions payable	–	(6,020)	(7,520)	(121)	–	(2,588)	(16,249)
Dividend income	–	38,307	3,741	1,814	–	1,488	45,350
Rent payable	–	(6,241)	–	–	–	–	(6,241)
Recoverable expenses	–	(3,455)	–	–	–	4,559	1,104

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

32. Non-controlling Interests

	2010 £'000	2009 £'000
At 1 April	25,350	1,797
Profit attributable to non-controlling interests	24,547	10,540
Reclassification of perpetual instruments	124,335	–
Reclassification from associated undertakings	–	25,941
Purchase of non-controlling interests	(1,024)	(712)
Dividends	(10,184)	(18,346)
Interest on perpetual instruments	(13,447)	–
– tax relief thereon	3,765	–
Exchange	(653)	6,130
At 31 March	152,689	25,350

Non-controlling interests consists of

	Note	2010 £'000	2009 £'000
Perpetual debt instruments	34	124,335	–
Other		28,354	25,350
At 31 March		152,689	25,350

Notes to the Financial Statements

(forming part of the Financial Statements)

33. Share Capital

	2010	2009
Authorised	199,900,000	199,900,000
Allotted, called up and fully paid ordinary shares of £1 each	57,654,551	57,654,551

III

34. Perpetual Instruments

As described in note 24, on 29 May 2009 subordinated debt instruments were reclassified as equity instruments at their fair value as at the date of reclassification. The amount of perpetual instruments consists of

	2010 Group £'000	2010 Company £'000	2009 Group £'000	2009 Company £'000
Perpetual Fixed Rate Subordinated Notes 9% (£75 million)	48,750	48,750	–	–
Perpetual Floating Rate Subordinated Notes (€150 million)	51,725	51,725	–	–
Perpetual Floating Rate Subordinated Notes (US\$100 million)	23,860	23,860	–	–
At 31 March	124,335	124,335	–	–

35. Principal Subsidiary Undertakings

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

	Percentage held
Five Arrows Leasing Group Limited (Lease portfolio management)	100
Five Arrows Leasing Limited (Asset finance)	100
State Securities Plc (Asset finance)	100
Specialist Fleet Services Finance Limited (Contract hire and maintenance)	100
Rothschilds Continuation Finance PLC (Finance company)	100
Lanebridge Investment Management Limited (Property investment management)	100
Rothschild Europe BV (Investment holding company – incorporated in the Netherlands)	50
Rothschild GmbH (Investment banking company – incorporated in Germany)	100
Rothschild SpA (Investment banking company – incorporated in Italy)	90
RCF Polska sp z o o (Investment banking company – incorporated in Poland)	100
Rothschild Portugal - Serviços Financeiros Limitada (Investment banking company – incorporated in Portugal)	100
RCF (Russia) BV (Investment banking company – incorporated in Russia)	100
Rothschild España SA (Investment banking company – incorporated in Spain)	98
Rothschild (Middle East) Limited (Investment banking company – incorporated in Dubai)	100
Rothschild Australia Limited (Investment banking 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 £43,807,000 (2009 £40,794,000)

Notes to the Financial Statements

(forming part of the Financial Statements)

36 Parent Undertaking and Ultimate Holding Company

112 The largest group in which the results of the Company are consolidated is that headed by Rothschild Concordia SAS, incorporated in France. The smallest group in which they are consolidated is that headed by Paris Orléans SA, registered in France. The accounts are available on Paris Orléans' web-site at www.paris-orleans.com

37 Remuneration of Directors

	2010 £'000	2009 £'000
Directors' emoluments	6,177	6,946
Amounts receivable under long term profit share schemes	2,497	2,128
	8,674	9,074
Pension contributions to money purchase schemes	84	97
	8,758	9,171

The emoluments of the highest paid director were £1,311,000 (2009 £2,730,000)

	2010	2009
Retirement benefits are accruing to the following number of directors under		
Money purchase schemes	6	5
Defined benefit schemes	4	4

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